Accountancy

ESTABLISHED 1889

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Integration Effective

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We Look Before and After

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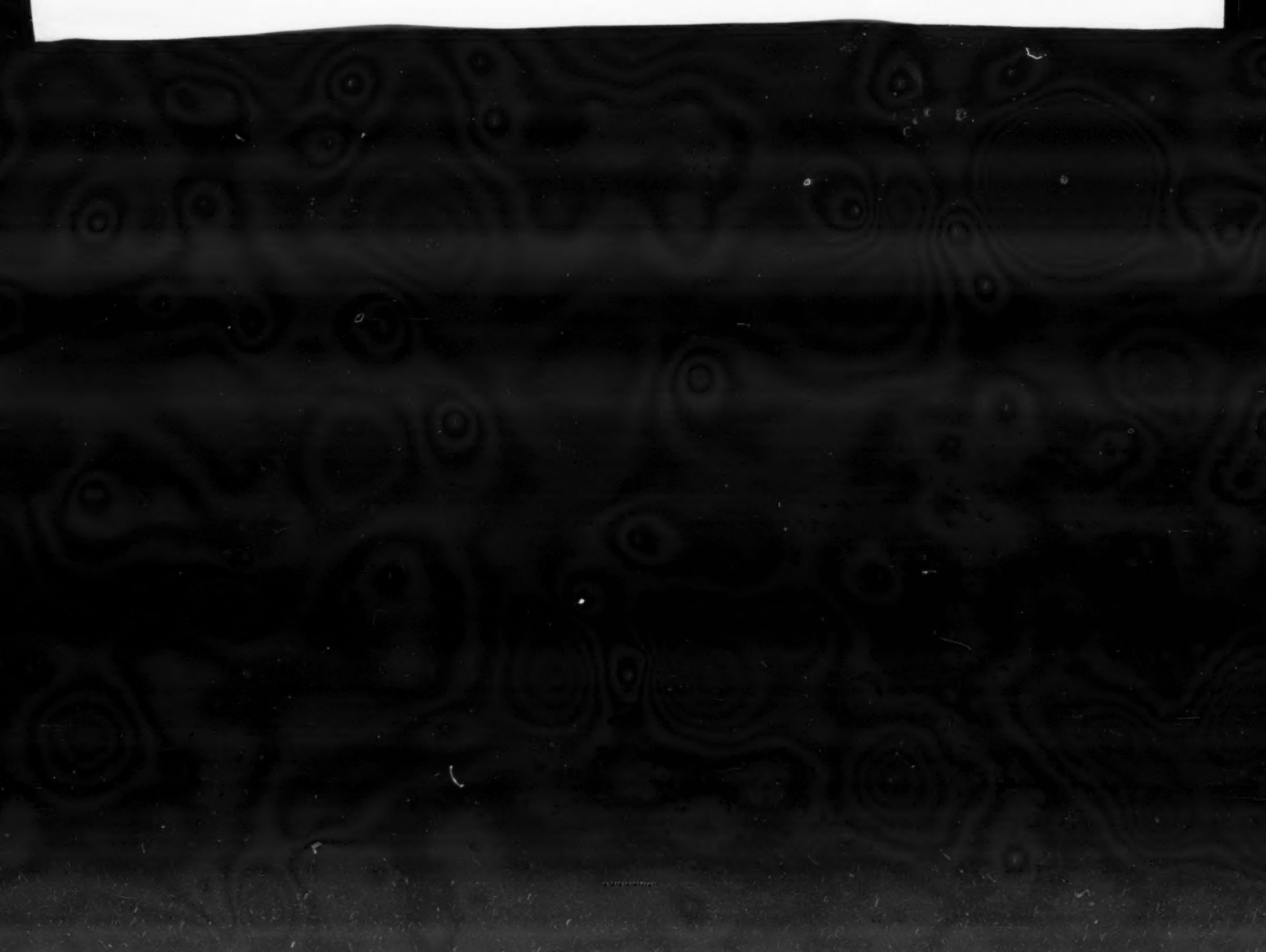
Purchase Tax and the Accountant

THE SOCIETY OF INCORPORATED ACCOUNTANTS

DECEMBER 1957

TWO SHILLINGS



Accountancy

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Professional Notes

Integration Effective—

MEMBERS OF THE Society of Incorporated Accountants resolved at an extraordinary general meeting held on November 1 to place the Society in voluntary liquidation. The resolution was passed by 225 votes to 42. We give a full report of the proceedings on pages 545 to 547 of this issue.

So was completed the last stage leading to the integration of the Society with the three Chartered Institutes. The Councils of the Society and of the Institutes had already decided that on the passing of the liquidation resolution the integration schemes should become effective on November 2. Soon after that date all Incorporated Accountants were notified of the procedure for applying to become members of one of the three Institutes.

Applications are now being received by the Institutes, and the processes are being gone through for the admission of the large number of new members. The administrative work, on the English Institute in particular, is heavy, but the three Institutes aim at its being completed as quickly as possible. The English Institute hopes that admission will be completed in three large groups at the Council meetings on January 8, February 5, and March 5 next: admission letters are to be issued after each meeting. The Scottish Institute hopes that the bulk of the applicants will be admitted at a Council meeting on November 26, and the remainder soon afterwards.

Members of the Society of Incorporated Accountants will continue to use the description "Incorporated

Accountant" and the designatory letters "F.S.A.A." or "A.S.A.A." until their applications for admission into a Chartered Institute under the terms of the integration schemes have been formally accepted, when they will become members of the Chartered Institute and, if appropriate under the schemes, entitled to describe themselves as "Chartered Accountant," with the use of the letters "F.C.A.," "A.C.A.," or "C.A."

—The Position of Society Students

THE INTEGRATION SCHEMES provide that clerks who were articled to members of the Society before November 2 and bye-law candidates registered before that date may be registered with a Chartered Institute.

For registration with the English Institute, the procedure will be notified to those concerned shortly; meanwhile, such students and their principals are asked not to write to the Institute on the subject.

All Society articled clerks and bye-law candidates in Scotland who appear to be eligible to be registered with the Scottish Institute will receive registration forms from Incorporated Accountants' Hall. Some articled clerks and bye-law candidates in England and Wales are eligible to register with either the Scottish or the English Institute, and it is not practicable to ensure that every such student receives the registration form for the Scottish Institute. Any such student wishing to register with that Institute should apply to Incorporated Accountants' Hall for a form if he has not yet received one.

Forms for registration with the Irish Institute are now being issued to all the Society students concerned.

In the meantime, all Society students should continue their present articled or bye-law service.

The English Institute has issued a statement on the eligibility of articled clerks and bye-law candidates of the Society for future examinations of the Institute and the Society. We give the statement in full on pages 547–9.

There will be no new bye-law candidates or clerks serving under Society articles. A practising member of the Society wishing, before admission into a Chartered Institute, to take a new clerk under articles of that Institute should first write to the Secretary of the Institute for details of the procedure.

—Pension Schemes for Society Members

MEMBERS OF THE Society of Incorporated Accountants may secure the advantages of one of the pension schemes recently brought in by the English and Scottish Institutes, even before obtaining admission into a Chartered Institute.

The scheme for members of the English Institute who are self-employed or otherwise within the ambit of Section 22 of the Finance Act, 1956, and that for the employees of participating members and firms (which must have at least one member as a partner) have both been extended to members of the Society, other than those who will enter the Scottish Institute. The first scheme, called *CARBS*, was described in our issue of last July (pages 287-8) and the second, called *CAESS*, in our issue of last September (pages 376–7).

Since these two schemes have been extended to members of the Irish Institute, a member of the Society who will enter that Institute and who now joins *CARBS* or *CAESS* may continue to participate in the scheme after his admission into the Institute.

The retirement benefits and life assurance plan of the Scottish Institute, described in our issue of September last (page 377), is similarly open immediately to members of the Society who will later be admitted to membership of the Institute. The Council of the Institute is now considering the introduction of a superannuation scheme for employees of members.

Unlawful Acts by Clients

A BOOKLET ENTITLED *Unlawful Acts or Defaults by Clients of Members* was issued to all members of the English Institute by its Council in August, 1957. The booklet was at first private, but the embargo has now been lifted.

The distinction is made between felonies (larceny, embezzlement, receiving stolen goods, forgery, arson) and misdemeanours (defrauding the Inland Revenue, fraudulent conversion by trustees, frauds by directors and officers of companies, falsification of accounts, failure by a bankrupt to keep proper books, share pushing, fraudulent trading, obtaining property by false pretences, offences against control regulations or in respect of purchase tax, the payment or receipt of bribes).

If a client has committed a felony, an accountant who intentionally helps the client to escape conviction commits the criminal offecne of being an accessory after the fact; there is no similar offence with misdemeanours. If the accountant knowingly fails to report the felony to the police he commits the offence of misprision of felony if his concealment of the crime is for his own advantage and possibly even if it is not; there is no similar offence with misdemeanours. The Council advises any member of the Institute acquiring knowledge of a felony to bring the facts to the notice of his client if the offence has been committed by an employee of the client, but if committed by the client himself the member should consult a solicitor about reporting the facts to the police.

A person who has knowledge of a misdemeanour, in contrast to a felony, has no public duty to act as informer. It would, therefore, says the Council of the Institute, be a breach of the confidence which exists by reason of the professional relationship between a practising member and his client if the member were to inform against his client in respect of a misdemeanour knowledge of which was acquired in the course of professional duties.

The member could not, however, merely ignore the state of things if he found that a client had committed a misdemeanour as, for example, the defrauding of the Inland Revenue. The statement sets out at length what action would be called for by the member in situations of this kind. It also advises on special points concerning sole traders and partnerships; on a member's relationship with his successor when a change of auditor or professional accountant takes place because the client has committed unlawful acts or defaults;

and on the position when a client or former client is prosecuted.

Where Are Those Paid Cheques?

THE FACT THAT a paid cheque is good evidence of payment, by common law when it is endorsed and by virtue of the Cheques Act when it is not (see our last issue, pages 456–7), will lead many individuals and businesses to give up calling for separate stamped receipts for the payments they make. Our query whether the Inland Revenue would co-operate is now answered by an official statement that paid cheques, accompanied by the unreceipted accounts or invoices, will be accepted in support of maintenance and other such claims. A point that does not seem to have been discussed at all generally is the varying practice of the banks in their handling of customers' cheques after they have been debited to the account; some banks habitually return paid cheques with the statements, but others do not.

Anyone who is now proposing to rely on his paid cheques as receipts should obviously have their whereabouts in mind, and instruct his bank either to return them regularly or to store them so that they are readily accessible.

Indeed, it seems reasonable to expect that those banks that do not now send paid cheques back (in some instances the practice was discontinued as a wartime economy) will now have to consider doing so; for even apart from business users, if the giving of receipts falls away substantially private customers will increasingly find themselves needing their cheques to prove disputed payments.

Although it is impossible to be dogmatic about anything as occult as bank charges, there should be no increase in charges for returning a customer's own cheques to him; the banks that do it already do not (presumably) charge any more than those that do not.

New National Insurance Contributions

HIGHER CONTRIBUTIONS TO National Insurance will become payable from the beginning of February next on the passing of the National Insurance Bill now before Parliament. We set out the new weekly contributions, with the present contributions in brackets.

Employed	*Men over 18*	*Women over 18*
	s. s.	s. d.
Employed person	9 5	7 8
	(7 5)	(6 0)
Employer ..	8 1	6 7
	(6 2)	(5 1)
Total	17 6	14 3
	(13 7)	(11 1)
Self-employed ..	11 6	9 8
	(9 3)	(7 10)
Non-employed ..	9 1	7 3
	(7 4)	(5 10)

Other rates, as for juveniles, increased correspondingly.

There are to be increases in war pensions, in National Insurance pensions and benefits and in National Assistance.

Higher Allowance for Dependent Relatives

ONE CONSEQUENCE OF the increase in pensions is that almost unheard-of-event, an anticipation by the Chancellor of the Exchequer of his next Budget. The dependent relative allowance for income tax is at present a maximum of £60, reduced by £1 for each £1 of any excess of the dependant's income over £105. The increase in pensions, if allowance remained unchanged, would thus reduce the tax relief given to taxpayers helping to support elderly or infirm relatives. To avoid this consequence, the next Finance Bill is to provide for an increase to £135 in the income limit for the dependent relative allowance.

Taxation in Inflation

THERE WERE MORE than 100 assembled at a conference on taxation held at Eastbourne last month by the London and District Society of Chartered Accountants. Those taking part came not only from accountancy firms but also from the offices of stockbrokers, lawyers and large businesses. Included among them were some dozen members of the Society of Incorporated Accountants. The conference was opened by Mr. W. S. Carrington, F.C.A., a Past President of the Institute of Chartered Accountants in England and Wales and the chairman was Mr. C. W. Aston, A.C.A.

Three papers were read—by Mr. C. D. Hellyar, F.C.A., on the effect of inflation on taxation; by Mr. G. G. G. Goult, F.C.A., on aspects of personal taxation; and by Mr. G. S. A. Wheatcroft, M.A., on the likelihood of various changes in taxation law. The two and a half days of the conference were full with the reading of the papers, and, even more, their discussion in groups.

Mr. Hellyar discussed the anti-inflationary aims of post-war taxation and the effects of inflation on profit measurement. Like many others, he did not find the differential rate of profits tax effectively anti-inflationary, but it had produced numerous anomalies. The furling of the "Chancellor's umbrella," which had protected companies from directions under Section 245 of the Income Tax Act in certain conditions, meant that logically he should now abolish the differential in the profits tax. "However," said Mr. Hellyar, "let us not be too optimistic, since logic is not always evident in the framing of tax legislation."

Mr. Hellyar pleaded that effect should be given to the majority recommendation of the Royal Commission on the Taxation of Profits and Income that any method of stock valuation, other than F.I.F.O., suited to a business should be allowed, subject to safeguards on the change from one method to another.

ACCOUNTANCY
MID-MONTHLY PUBLICATION

From the issue of January, 1958, ACCOUNTANCY will be published as the journal of the Institute of Chartered Accountants in England and Wales.

To allow early publication of news and announcements of the Institute, from the January issue the journal will appear mid-monthly, within a short period of the monthly meeting of the Council of the Institute.

Mid-monthly publication will also permit the general news and events of the whole of the preceding month to be covered.

Capital allowances Mr. Hellyar regarded as in the main an inadequate recognition of the increased costs of replacing fixed assets. In his summing up, Mr. C. W. Aston, concurring with this point, said that although no estimate had ever been made, the initial allowances must have left at least £1,000 million of cash in industry that would otherwise be taken out in taxation. The danger was that if inflation ceased it might be thought that accelerated capital allowances were no longer necessary. There would be no new "interest free loans" to replace what was being withdrawn as a result of depreciation running out. Then industry, which had invested this vast sum in fixed assets, would be called upon to repay it in the shape of increased taxation.

Mr. Hellyar thought that more public criticism should be directed against the accounts of concerns not providing for depreciation on replacement costs—including most nationalised industries, though not all of them. Mr. Aston carried the point further by doubting whether businesses should be taxed on surpluses resulting from inflation when not regarded by the businesses themselves as divisible profits: should the surpluses not be exempt from taxation if placed to capital reserve?

Mr. Goult considered ways and means of personal tax planning and Mr. Wheatcroft, somewhat in contrast, argued that if various loopholes in the tax fabric were closed, there could be a reduction in tax rates to the general advantage.

"Audits" without Auditors

LAST YEAR THERE came to light a particularly blatant instance of the audit of a trade union being done by unqualified "auditors." A defalcation of rather more than £10,000 had passed undetected because the lay auditors, who were engine drivers and a timekeeper, had failed to make the necessary checks. (See ACCOUNTANCY for December, 1956, pages 478–9.)

This unhappy story was related by the Registrar of Friendly Societies in part four of his report for 1955. In part four of his report for 1956 (H.M. Stationery Office, price 2s. 6d. net), the Registrar returns to the general issue by giving statistics as follows:

Class of Employees' Trade Union	*No. of Unions*	*Members (million)*	*Funds (£ million)*
Auditors without accountancy qualifications	172	1.3	8.6
Auditors with accountancy qualifications but annual returns signed by lay auditors ..	5	1.1	13.4
Auditors with accountancy qualifications ..	223	7.4	57.7

The unions with only lay auditors include 66 with more than 1,000 members and 79 with more than £5,000 of funds. Two of these unions embrace 853,000 members and funds totalling more than £5 million.

We repeat what we said in our note last year:

> It is an anachronism for any trade union or similar body, least of all a large one, to allow, far from stipulating in its rules [as was done in the rules of the trade union that suffered the defalcation], that the auditors should be other than professionally qualified. If unions and voluntary societies do not protect their members by promptly making reforms on the point, then the law should see that they are made to do so. In his report the Registrar pertinently remarks that the law requires a professional audit for the accounts of most registered friendly societies with more than 500 members or more than £5,000 in funds: he leaves the obvious inference to be drawn.

Our Subscription Rates

FOR SOME TIME past it has been only too evident that the subscription rates to ACCOUNTANCY are inadequate. The costs of printing and paper have mounted steeply in recent years. There have been drastic advances in postage charges, especially during 1957: the wrappering and postage of the journal now absorbs about 6s. 6d. of the annual subscription.

Rather than to cut down the amount of editorial space in the journal—the only way left of making substantial economies—it has been reluctantly decided that an increase in the annual subscription rate can be no longer deferred, and that from the issue of January, 1958, it should be increased from the present figure of £1 1s. to £1 10s., postage included.

The special annual rate for students, at present 10s. 6d., postage included, will be raised in the same proportion, to 15s., postage included.

The Cash Basis—

IN EVIDENCE GIVEN before the Committee of Public Accounts and just published, Sir Henry Hancock, Chairman of the Board of Inland Revenue, was asked whether the Board had power to insist that a professional man should be assessed on an earnings basis. Sir Henry replied that the statutes laid down no precise basis. Accounts have to be presented in accordance with good accountancy practice and procedure. As far as the Board could make out the cash basis has been used from time immemorial and it certainly had judicial recognition. The cash basis was a very old practice and the pure cash basis suited rather slapdash business habits, such as those of the country doctor who in many instances, though not in all, had probably been on the cash basis from a very early date.

Inspectors of Taxes, continued Sir Henry, had no power to refuse to allow a cash basis after the first three years at the commencement of a profession. The Board regarded itself as having the right to require an earnings basis during those years but as not having the right to challenge a change to the cash basis thereafter. Full earnings, including profit, was at one extreme end. Then there was the earnings basis with work-in-progress estimated at cost. Again, a bills delivered basis was fairly common.

It was not possible to differentiate between the legal position and the practice because all the systems mentioned were in accordance with recognised accountancy principles and the full cash basis had been judicially recognised by the courts as a quite proper basis. Sir Henry would not say that if they acted entirely arbitrarily they might not be able to insist on the earnings basis, but if they did so Parliament would be up in arms because the Revenue would be reversing the conventions of perhaps 150 years, which was not a

thing to be done by a stroke of the pen. In fact, the convention was so strong that it had, in the view of the Board, virtually the force of law.

The cash basis was current in every profession and even in the accountancy profession, where one would expect the greatest regard for more elaborate and more developed forms of account presentation, there was still a certain number of cash basis cases. With doctors and solicitors there were many.

Sir Henry Hancock agreed that where a taxpayer changed over to the cash basis he was required to give an undertaking that when he contemplated retiring he would send out accounts during his business period to clients or patients. Having given that undertaking, his good faith was relied upon to do his utmost to get the bills in. This situation held for professions other than the Bar. The undertaking system had only been introduced comparatively recently.

The cash basis was naturally an easier and simpler system to work, as a current taxpayer did not need to estimate the value of work-in-progress. He would not like to quantify any saving in terms of Inspectors.

Changing over from an earnings to a cash basis meant that cash collected after the change in respect of earnings before the change naturally came into account twice. This offset some of the loss at the other end.

—And Barristers' Inability to Sue

BARRISTERS WERE ALL on the cash basis and there could not be any question about their position because they were unable to sue for their fees, which were really just gratuitous and honoraria.

Sir Frank Tribe, the Comptroller and Auditor-General, said he had discussed the question of the right of barristers to sue and found that the solicitor's clerk and the barrister's clerk agreed as to the fee which should be paid to the barrister, and the solicitor, who could sue the client, could include the barrister's fee in his charge to the client. If it should happen, which was inconceivable, that having secured payment the solicitor should then refrain from handing the money over to the barrister, there were professional means whereby the barrister could bring pressure to bear upon the solicitor. Therefore it seemed that, although technically the barrister could not sue, his inability to do so was just a legal fiction.

Sir Henry Hancock replied that the position regarding barristers and collection of fees might be a legal fiction but, if so, it was so old that it almost had the force of legal position. The Board was quite satisfied that it could not require barristers to put in their accounts on an earnings basis without legislation. That was the advice which the Board received from its legal advisers, who were themselves mainly barristers.

Shorter Notes

Second Call-up of Restrictive Agreements

Trading agreements involving price restriction or discrimination in the terms of trading have already been included on the register kept by the Registrar of Restrictive Trading Agreements. Subject to an Order (the Registration of Restrictive Trading Agreements Order, 1957) being approved by Parliament, all remaining restrictive agreements will have to be furnished during the first three months of next year and their registration will take place as soon as possible after March 31, 1958. The agreements covered by the Order are, broadly, those involving restrictions on the quantity or type of goods that may be produced or sold and agreements involving the division or sharing of markets or areas between suppliers. Agreements affecting exports but not the domestic market do not have to be registered but must be notified to the Board of Trade.

Census of Production for 1957

For the year 1957 the census of production will be a simplified one taken on a sample basis, similar to that for 1956. The returns for the census will be made next year and businesses required to make returns have already been notified by the Census Office.

New President of the American Institute

Mr. Alvin R. Jennings, C.P.A., a partner in the New York office of Messrs. Lybrand, Ross Bros. and Montgomery, has been elected President of the American Institute of Certified Public Accountants. Mr. Jennings has been a member of the Institute since 1935. The new Vice-Presidents are: Mr. Donald J. Bevis, C.P.S., Mr. Roy C. Comer, C.P.A., Mr. Louis H. Pilie, C.P.A., and Mr. John M. Stoy, C.P.A. Mr. John B. Inglis, C.P.A., was appointed Treasurer.

Training for O. and M.

An investigation is to be made into the basic training required for those doing Organisation and Methods work in industry and commerce, and to run pilot training courses for them. The *Organisation and Methods Training Council* has been formed for the purpose as a company without share capital. Its secretary is Mr. N. B. Gallagher and its offices are at 307 Cecil Chambers, 86 Strand, London, W.C.2.

Dividend Restriction in U.S.A.

The number of companies in the United States limited to maximum dividend payments by the terms of outside indebtedness and credit agreements is growing. A survey of 600 annual reports shows that about 61 per cent. of the companies were so restricted in 1956, compared with 52 per cent. in 1951. The information comes from *Accounting Trends and Techniques*, prepared and published by the American Institute of Certified Public Accountants (price $15 net). The volume also provides much other information about changes in the form and content of American published accounts. One such change is that in 1946, when the first issue of the publication was made, only 41 per cent. of companies presented comparative figures, but in 1956 more than three-quarters of the companies did so.

A Good Clean (Humour) Certificate

When I look at this prospectus of the Opposition with the cost which is involved. . . . I am reminded of the words of that fine comedian of the "Windmill," Mr. John Tilley, who . . . was reading out the auditor's report at a company meeting:

> We certify that everything in the accompanying balance sheet, with the exception of the figures, appears to be correct; and the business of the company, if any, appears to be on the incline.

—Mr. R. A. Butler, in the Commons on November 12.

Fides Atque Integritas

Mr. C. E. Green, A.S.A.A., suggests that the motto of the Society might be freely translated as "Faith and Integration."

EDITORIAL

We Look Before and After

"WE look before and after," wrote Shelley. Our own present retrospect is of seventy-two years of domestic history, the life-span of the Society of Incorporated Accountants. Our prospect is of a future in which though the Society will be dead its members will continue their corporate existence as actively as ever. "Our sincerest laughter with some pain is fraught," Shelley continued. There is sadness in the coming to an end of a body such as the Society, with its high ideals, its comradeship, its progressiveness. But there is gladness in looking ahead to the future, in which, as a result of the steps recently taken, the accountancy profession will be much closer than ever before to being a unified profession.

In his retrospect at the last meeting of the Society, in which it resolved to liquidate itself and thus enabled the integration schemes with the three Chartered Institutes to become effective the next day, Sir Richard Yeabsley, the President, said that there had been some 14,000 members now and in the past, many of whom might not otherwise have joined the profession. As is shown by Mr. A. A. Garrett, in his absorbing and urbane history of the Society, of which he was for so long the dedicated secretary—a history published with editorial appreciation in the last and the present issues of ACCOUNTANCY—the signal characteristic of the Society was its policy of the "open door." The young man (and, later, the young woman) wishing to enter the profession, but whose parents could not afford the premium for articles of clerkship, could receive through the "special bye-laws" a cherished and highly-respected qualification in accountancy: he could take the examinations by virtue of approved professional service not under articles but for a longer period. It was a fine idea that led the founders to make the open-door policy their main tenet. But now that we live in a changed society and a changed economy, premiums for articles are almost a thing of the past. So the Society was losing its main distinguishing mark and purpose.

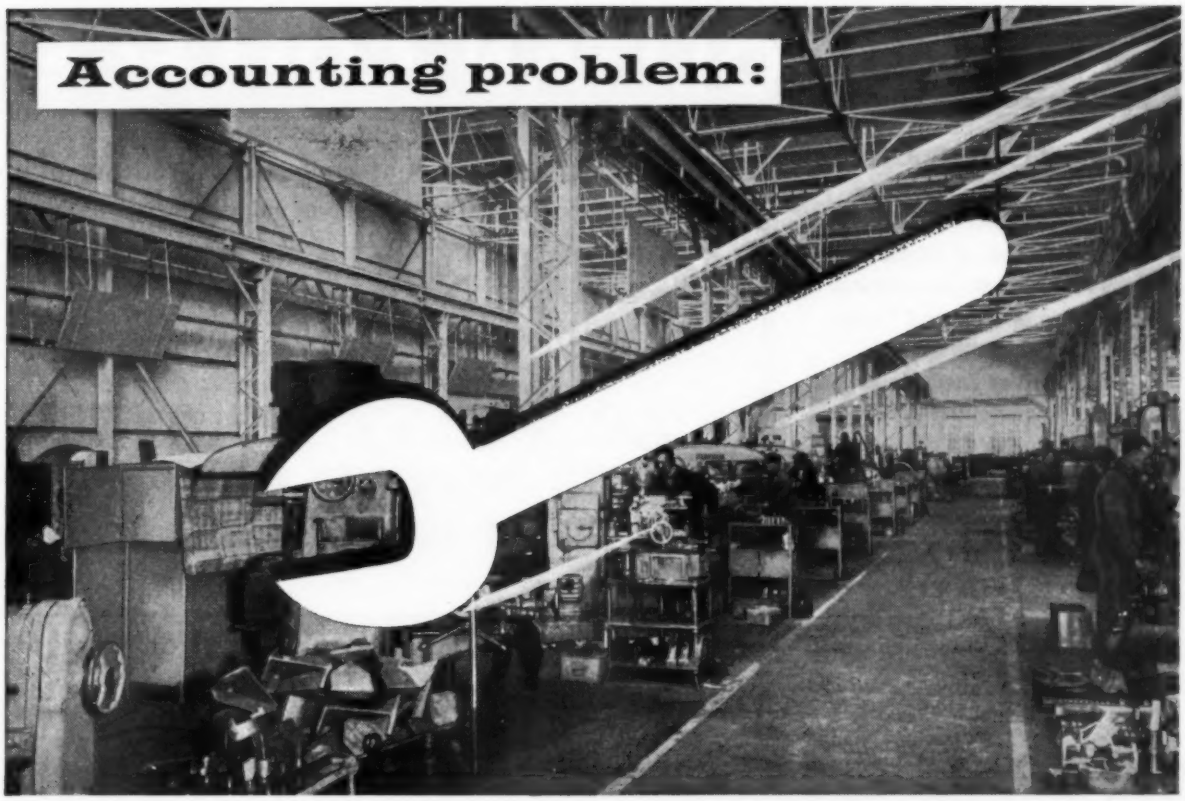
However, integration with the Chartered Institutes did not stem from this single cause. It was clear, to the Institutes as to the Society, that the accountancy profession would be greatly strengthened if it made this long stride towards unification. One has only to read Mr. Garrett's account of the abortive attempts at statutory registration for accountants, attempts that go back to 1893, to see that there was no hope that the essential tidying-up of the profession could come by that alternative path, at least through voluntary action by the accountancy bodies themselves—and who would wish for government action? Looking at the history, again, it is startling to note that as far back as 1897 a project was agreed by the Councils of the English Institute and the Society, not only for registration but also, at one and the same time, for integration. The plan was rejected by the members of the Institute. To speculate on what the last sixty years of the accountancy profession might have been, if the English Chartered Accountants of 1897 had been visited by an inspired foresight when they voted, is tantamount to repeating another line of Shelley's stanza from which we have already quoted: "We pine for what is not." What is now important is, as Mr. Garrett puts it, that 1957 has redeemed 1897.

Further retrospect of the domestic scene is justified, nevertheless, for it behoves every Incorporated Accountant to remember, with a certain pride and pleasure, the outstanding part that has been played by his Society in the profession and in the contribution of accountancy to the economy. The Society always strove for and reached the very highest standards of professional competence and integrity. It conducted examinations that were not only a most searching test of ability but also led the way in a number of respects in making syllabuses up to date. It developed a district society organisation that was a model. It put out vigorous offshoots in the Commonwealth that have helped greatly the strong growth of accountancy there. It worked continually, especially in the earlier and middle years, for the proper recognition of Incorporated Accountants in legislation, and, more generally, for the proper recognition of all professional accountants. It began the short courses at the universities. It pioneered in accounting research.

The account is incomplete in detail, but it was well summed-up by the President at the final meeting when he said that Incorporated Accountants might claim, in all humility, to have played no small part in preserving the high ideals of the profession—high ideals of integrity, fairness and service. As he continued, facing the future:

> We are conscious of the great traditions and high standing of the Institutes we are joining, and the justifiable pride therein of their members, and the members of the Society will, I have no doubt, play their part in guarding and enhancing these treasures.

The prospect is indeed one to which Incorporated Accountants—and those who have been training to become Incorporated Accountants—can look forward with confidence and enthusiasm. They are being welcomed by the Chartered Institutes into a great and worthy fraternity, one that leads the world in matters accounting.



INACCURATE INFORMATION WAS THROWING A SPANNER INTO FRASER'S WORKS!

DOUGLAS FRASER AND SONS LTD., a firm of Scottish engineers specializing in the manufacture of textile machinery and machine tools, used to keep their Store Records on Bin Cards. These cards only showed the materials purchased and those issued to production. Every six months, stock was checked against these Bin Cards—there were always a number of discrepancies. Because no *net* balance was registered on the Bin Cards, Fraser's often found they didn't order enough new stock to cope with production requirements. This was happening at a time when demand was increasing and materials were taking longer to arrive anyway.

Like many firms, big and small, faced with this kind of problem they called in Burroughs

SOLUTION: In close co-operation with Fraser's own staff, the Burroughs representative worked out a system based on four machines—two Sensimatics, one Director Adding Machine and one Duplex Calculator. As a result the firm now gets a daily balance of all its stock items. Also during the posting operation the order level is automatically registered. Re-ordering became mechanically accurate, production programmes go through smoothly, and no extra staff were taken on at all.

HOW BURROUGHS MIGHT BE ABLE TO HELP YOU

Ask yourself: How many of your staff are engaged in figure-work? How long does it take you to get the figures you want? Are the figures always accurate when you do get them?

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They will advise *against* buying one of their machines if they don't think you need one. Their advice, of course, is free. The local Burroughs office is in the phone book.

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The Society of Incorporated Accountants
II—1931 to 1957

by A. A. Garrett, M.B.E., M.A.

(Honorary member and formerly Secretary of the Society of Incorporated Accountants)

1931 to 1939

THE REPORT OF the Goschen Committee (1930) had put into abeyance the controversial question of registration, at any rate for some considerable time. The Local Legislation Committee of the House of Commons, and Corporations, were getting tired of petitions on audit clauses in municipal Bills. However, a general solution was found: the Municipal Corporations (Audit) Bill, with the blessing of the Government, withstood the hazards of a Private Member's Bill and was passed in 1933. Instead of audit by borough (elective) auditors, a municipal corporation *might* adopt District Audit or appoint professional auditors who *must* be members of the English Institute, or the Society, or one of the Scottish Chartered bodies, or the London Association, or the Corporation of Accountants (the last two named bodies are now amalgamated). Embodied in the Local Government Act, 1933, the provisions resolved a long controversy and established a standard of auditors' qualifications approved by Parliament.

The affairs of the Royal Mail Steam Packet Company and the accounts of the company for 1926 and 1927 became in 1931 a cause of much anxiety to the whole profession. The auditor, a man of singular integrity and highly regarded, was rightly cleared of a serious charge, after a trial in which Lord Plender and the President of the Institute (H. L. H. Hill) and the President of the Society (Henry Morgan) gave expert evidence. The charge was brought in relation to the following item in the published profit and loss account:

> Balance for the year, including dividends on shares in allied and other companies, adjustment of taxation reserves *less* depreciation of fleet, etc.

The omnibus item included a transfer from a previous provision no longer required, whilst operations for the year resulted in a loss: the issue concerned the words, and their implication "including adjustment of taxation reserves." It now seems that an unsatisfactory technique had become fairly common practice without appreciation in the profession of its implications—but it did not so appear at the time.

There followed a report by a special Committee of the Society, which made recommendations mainly in regard to extraneous items or any reserves from a previous period brought into account in a particular year and the treatment of profit or losses of subsidiaries in the accounts of the holding company. It also suggested a Departmental Committee to consider these matters; but this the Board of Trade were unwilling to accept, having regard to the quite recent Companies Act, 1929.

The Institute took the opinion of eminent Counsel and a copy of the opinion was circulated among all its members. Counsel were not prepared to lay down general principles for guidance arising from the circumstances of the Royal Mail case. Some members of the Institute thought that the opinion did not help them: but at the annual meeting of the Institute, the President made a statement which he said was personal only and which, while it refrained from offering official guidance, considerably clarified the situation.

Both in relation to the Royal Mail case and circumstances at that time, there was clearly need for more information in the published accounts of companies. Voluntarily and without legislation, companies and the profession co-operated in this direction and much improvement was effected. Henry Morgan, then President of the Society, was instrumental, at meetings of the Society and otherwise, in drawing public attention to the question of reform in company accounts.

The fourth International Congress on Accounting assembled in London in July, 1933. Lord Plender, G.B.E., was President, Sir James Martin Vice-President, with Hon. George Colville (Institute) as Secretary and Mr. R. Wynne Bankes (Institute) and Mr. A. A. Garrett (Society) as Assistant Secretaries. The questions of auditors' responsibilities and holding companies were prominent in the discussions, and Sir Josiah Stamp, G.B.E., gave a paper on international finance. By kind permission of the Dean and Chapter, a service was held in Westminster Abbey, and a dinner in Guildhall was honoured by the presence of H.R.H. Prince George.

It is pleasing to recall that the Congress Committee adjusted in a friendly way the delicacies that the organisation of an International Congress cannot fail to present.

Berlin was the scene of the fifth Congress in September, 1938, when tension between Britain and Germany had unhappily reached a serious pass; so much so that the British delegation met in London immediately prior to the Congress and discussed a painful situation. They decided to attend, the delegation to be limited to officially nominated representatives. The Congress was well-organised and passed off without incident, although visitors could not fail to be aware of Nazi influence in the Congress, in spite of friendly attitudes on the part of

The first part of Mr. Garrett's history of the Society, covering the period 1885 to 1930, appeared in ACCOUNTANCY for November, pages 463-471.

individual members of the profession in Germany. On the last day of the Congress, Neville Chamberlain was on his mission to Hitler at Godesberg, and it was with some relief that delegates returned to their own countries.

In 1938 William Strachan retired from being editor of the *Incorporated Accountants' Journal*, with which he had been associated from its inception. Mr. Leo T. Little had been appointed Deputy Secretary of the Society in 1937; and he now took over the duties of Editor of the journal, which then became ACCOUNTANCY. It was presented in new format and type with a daffodil coloured cover, printed in blue ink—attractive but perhaps a little extravagant in terms of 1957 costs. After a wartime appointment in a government Department he relinquished being Deputy Secretary, but continued his editorial work.

* * *

Current topics in the profession were the subjects of papers presented at conferences of the Society (Sheffield, Belfast and Nottingham). So far as these topics were of general importance, the conferences enabled them to be brought to the notice of the public. Increasingly also the speeches of successive Presidents at annual meetings of the Society have served a similar purpose, domestic affairs of the Society receiving more extended treatment in annual reports and ACCOUNTANCY. The last conferences were held in Birmingham in 1949 and in Dublin in 1951 and afforded much pleasure and satisfaction.

By a happy inspiration, Mr. Bertram Nelson in 1934—then a junior member of the Council—suggested that the Society should arrange a short residential course for younger members of the Society. Through the goodwill of the Master and Fellows, a course was held at Gonville and Caius College, Cambridge, in July, 1934. Lectures were integrated with discussions in groups of about fifteen members, each under the guidance of senior members. The course, which was an experiment, proved an unqualified success, and between 1934 and 1939 three courses were held, one being at New College, Oxford. First originated by the Society, courses of this type have been organised by other accountancy bodies and have become a permanent feature of the profession.

The first half of 1935 was a period of great rejoicing in the country and in the Society. On lovely days in the late spring of that year, there were festivities to mark the Silver Jubilee of the accession of H.M. King George V and Queen Mary. On the state visit to the City, their Majesties were received at Temple Bar by the Lord Mayor (Sir Stephen Killik, a Fellow of the Society, who was later created K.C.V.O. and then G.B.E.).

By a happy coincidence, 1935 was also the fiftieth anniversary of the Society. At the unanimous invitation of the Council, Sir James Martin and C. Hewetson Nelson (Liverpool) became President and Vice-President: generously Mr. E. Cassleton Elliott shortened his period of office as President and Mr. R. Wilson Bartlett deferred his assumption of the Presidency to permit of this arrangement. The Corporation of London kindly made available Guildhall for the Society's dinner, which was a great occasion for the President and members. There were also other functions. The celebrations expressed the warm feelings of members towards the Society and were a source of much stimulation to them and to the Council. The events of 1935 are briefly recorded on a panel in the vestibule of Incorporated Accountants' Hall.

But 1935 was also a year of sadness for the Society, for in August of that year Sir James Martin died whilst on holiday. The sense of loss was felt profoundly, particularly in the Council; and it is true that for a long time after his death, the Council was influenced by what its members believed would have been Sir James's advice on major questions of policy.

King George V died in 1936, beloved by all his people. After a painful phase in the succession, George VI came to the throne and was crowned in Westminster Abbey in 1937. The President of the Society, Mr. R. Wilson Bartlett, received a Command to be present.

Under the Presidency of Mr. Walter Holman, in the spring of 1939, the Society had the honour of the presence of H.R.H. the late Duke of Kent at a dinner in Guildhall, London, a memorable occasion for the assembled seven hundred guests and members. There had been a similar dinner in April, 1932, when Henry Morgan was President.

* * *

Slowly the nation climbed out of the heartbreaking depression and unemployment of 1929 to 1933, of which deplorable accounts were brought to London by members who were professionally engaged in or near depressed areas. But, although economic affairs improved, the deterioration in the European international situation from 1936 to 1939 disturbed the mind and, towards the end, the activities of the nation. Compulsory military service of six months commenced in May, 1939 (the first conscription in peace-time), the Royal Air Force was expanded, if inadequately, and there was some switch to the manufacture of munitions. The Chancellor of the Exchequer had already (1937) imposed a National Defence Contribution on business profits, and in April, 1939, the standard rate of income tax was raised to 5s. 6d. in the £.

On the civil side, the Ministry of Labour set up a Register which included the names of qualified accountants who would volunteer for service in government departments or elsewhere, whilst a Schedule of Reserved Occupations covered accountancy.

Depressingly, the probability of war increased, and on September 3, 1939, after the invasion of Poland by Germany, the nation learnt with grim fortitude of the declaration by Parliament of war on Germany.

1940 to 1945

As hostilities proceeded, successive steps were taken by the Government to secure the maximum functioning of the nation in the prosecution of the war, involving the most favourable employment of manpower and resources. The accountancy profession responded in this great effort by younger members joining the Forces and by others working in civil capacities, in which their professional experience could be utilised most favourably. Some members took up appointments in government service at different levels, or other wartime posts; others,

by continuing in their usual occupations—adapting themselves to emergency conditions and to the host of new problems and services required, not least by clients, whose activities often drastically changed—served the national interest. The wartime work of the profession is a story in itself and here can be but outlined in inadequate terms.

Among *ad hoc* committees, at an early stage, was a Selection Panel, which advised the Minister of Supply on the selection of firms for the examination of the accounts of Controllers of Raw Material. Sir Nicholas Waterhouse was the Chairman, and Sir Thomas Keens and Mr. Percy Toothill represented the Society.

Several joint committees considered technical questions in relation to limitation of supplies, maintaining contact with the Departments and advising members by statements published in the professional periodicals.

Upon all persons and undertakings was the unprecedented burden of direct taxation—a standard rate of income tax of 10s. in the £ (April, 1941), with an exemption limit as low as £110, an Excess Profits Tax (late 1939), the National Defence Contribution and the partial extension of Schedule D to farmers—which threw heavy responsibilities on the profession and Inland Revenue, both hard driven and depleted of personnel. The broad extension of the field of income tax produced unprecedented problems of assessment and collection. With much resource, the Inland Revenue created a system of Pay-As-You-Earn, which, with the co-operation of employers and of the profession, was brought into operation in April, 1944, in incongruous and challenging circumstances: it came to stay.

To effect economy in paper, company reports and accounts were printed in greatly attenuated form and were subject to voluntary review by the Ministry of Information on grounds of security.

From time to time increasingly stringent conditions were applied to reserved occupations, and in 1941 individual deferment of military service was substituted for block reservation. A committee of representatives of the principal accountancy bodies had been formed for liaison with the Ministry of Labour and to make recommendations for deferment. The chairman was Charles Palmour, President of the Institute during the war, and Mr. Walter Holman, Past President of the Society, represented it on the committee. The committee organised applications from practising firms for deferment of partners and staff and, aided by members nominated by District Societies who attended in London, made recommendations within limits advised by the Ministry. With complete confidence in the committee, the Ministry accepted recommendations made. The calling-up of women employees was discussed with and handled by the Ministry in conjunction with manpower boards.

At the outset of the war, the Council appointed a small committee with wide powers, in case of serious emergency: but in spite of vicissitudes the Council was always able to meet regularly. Broadly, it concentrated effort on those joint functions already mentioned, on such service as it could render to members and students with the Forces or who were prisoners of war, and on keeping in being those parts of its own organisation that were compatible with wartime responsibilities and conditions: towards the end of the war it directed attention to future policy, particularly to the needs of serving members and students on their return to the profession. These efforts received the unremitting attention of the President, Mr. Richard A. Witty.

To protect the practices of members called up, the Council issued a memorandum for their guidance and for the guidance of other practitioners who, in a spirit of goodwill, carried on the practices of absent members.

In co-operation with the organisation set up at the Bodleian at Oxford by Ethel Herdman, M.A., the Society sent textbooks to prisoners-of-war camps, and through the Red Cross and St. John arranged for examinations to be conducted in the camps.

Immediately after the declaration of war, the Council decided that the examinations must be carried on half-yearly. The big cities, likely to be affected by enemy action, were not places for examinations, and the Society was greatly helped by accommodation afforded by the Headmasters of Sedbergh and of Taunton and the Principal of Southport Technical College; assistance was readily given by the masters and by available members of the Society, who welcomed the Society's staff. Occasionally in leisure hours, some youthful exuberance on the part of assembled candidates called for a little official restraint! The examination regulations were modified to permit of accelerated admission to the examinations of those liable to be called up and to whom limited deferment was allowed. Borderline cases were referred by the Ministry to tribunals presided over by a barrister: whatever may be said in criticism of administrative tribunals, the informality and sympathetic attitude of those charged with hearing these appeals left a most favourable impression of fairness and impartiality.

The Research Committee had been formed in 1935: it had issued two or three publications and had further projects under consideration. After a short suspension, the Committee resumed its activities. By intensive work on the part of Mr. F. Sewell Bray and Mr. H. Basil Sheasby the first edition of *Design of Accounts* was published in 1944 (Oxford University Press), and was rapidly absorbed: the first fruits of research were indeed promising.

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Happily, bomb stories have long since become "taboo": but the fortunes of Incorporated Accountants' Hall are inevitably a part of this record. Severe blast in December, 1940, caused some damage, and in 1941 there was a valiant and successful fight with a fire which consumed the neighbouring building barely thirty feet from the north wall of the Hall. By 1944, it was hoped that damage to the Hall was at an end: but it was not to be. For in July, 1944, during the short-lived attack by flying bombs, one exploded violently in the night between the Hall and Electra House, causing great damage to each. Fortunately no one at the Hall was injured. Next day, the Right Hon.

Clement Attlee, M.P., Deputy Prime Minister, Admiral Lord Mountevans—in charge of London bomb damage—and Captain Charles Norton, Chief A.R.P. Warden of Westminster, made a call at the Hall which was much appreciated. Considerable and urgent demolition reduced the risk of dangerous collapse, and then parts of the ground floor and basement were reoccupied. Meantime, a neighbouring firm of Incorporated Accountants kindly provided some temporary accommodation for about two years: and much help was given by the Institute of Chartered Accountants in England and Wales, the Law Society and the Chartered Auctioneers' Institute by providing the Society with accommodation for meetings and library facilities. All the protective operations had been directed by Mr. H. Harling, the Society's hall-keeper, who with Mrs. Harling lived on the premises throughout the war. Acknowledgment must be made of the helpfulness of the A.R.P. staff of Electra House.

Here a tribute should be paid to some prominent members of the Society who died during the war period. Edward Whittaker, Southampton, had been a founder member of the Council, on which he served for over fifty years. Great loss was suffered by the death of Lord Stamp, who was an Honorary Member, when his home was bombed, of Henry Morgan, President 1929 to 1932, and of Emanuel van Dien, Honorary Member, Amsterdam, during the occupation of Holland.

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Victory seemed now assured and from late 1943 the thoughts of the profession and the Council were directed to after-the-war problems.

An early effort by the Society was to furnish to the Board of Trade a memorandum on the finance of small businesses—an attempt to fill the "Macmillan Gap." The President of the Board of Trade had set up in 1943 the Departmental Committee on Companies, under the distinguished chairman the Hon. Mr. Justice (now Lord) Cohen. A memorandum submitted by a committee of the Council was supported by verbal evidence given by Mr. E. Cassleton Elliott and A. Stuart Allen.

The redeployment of a large part of the personnel and effort of the profession for war production gave impetus to accountancy in relation to management and particularly to the status of qualified accountants not in practice holding important positions in industry. The theme was taken up by the President, Mr. Richard A. Witty, at meetings of District Societies and in two of his speeches at annual general meetings. A welcome development was the election to the Council in 1946 of Mr. Leonard Hawkins, F.S.A.A., then Comptroller of the London Passenger Transport Board, the first industrial accountant to be so elected.

But besides separate efforts, some useful work was done jointly by representatives of the professional bodies. At the request of the Chancellor of the Exchequer, a memorandum on post-war fiscal policy was prepared, which was joined with similar memoranda of the Federation of British Industries and the Association of British Chambers of Commerce and submitted to the Board of Inland Revenue. Many of the recommendations were embodied in the Income Tax Act of 1945.

Ideas of some link between the profession and the Faculties of Commerce or Economics in the Universities had been adumbrated from time to time, and in the now forward-looking atmosphere, the Councils of accountancy bodies and the Committee of Vice-Chancellors agreed to the setting up of a joint committee (omitting Oxford and Cambridge) to consider the question. The committee was fortunate in having as chairman Sir Arnold (now Lord) McNair, then Vice-Chancellor of Liverpool University. By 1945 a scheme was agreed whereby a university course, on an accepted syllabus leading to a degree, could be combined with service under articles and exemption from the professional Intermediate examination, the period required being 5¾ years.

It was during the war years that discussion of the question of co-ordination of the profession was initiated, (*infra*).

* * *

An urgent and very practical question before all the professional bodies was the arrangements and organisation necessary for the studies of articled clerks and examination candidates, whose training and reading had been interrupted by active service, and to cope with the pent-up potential number of entrants to the profession. The professional employment of a number of the qualified men who were then serving, and their need for renewing professional knowledge, constituted a similar problem. Whilst each body considered and projected its own arrangements, there were helpful consultations with the Ministry of Labour. The framework of arrangements was put into shape, and one salutary condition was agreed—that, *mutatis mutandis*, concessions to candidates on the part of each professional body should be parallel.

In May, 1945, came V.E. Day. It happened that V.E.+1 day (May 9) fell on the date fixed for the annual meeting and, on short notice, was a public holiday. However, the Council met in the morning, and after lunch—which Brigadier O. H. Tidbury, p.s.c., M.C., who was then Assistant Secretary, had somehow managed to arrange—the meeting was held at the Auctioneers' Institute. Moved by the sense of relief and thankfulness, the members joined in the National Anthem and Mr. Richard A. Witty gave his presidential address. Attendance was rather thin and no doubt many members had found the victory celebrations in the streets of London an historic occasion not to be missed. In good heart, the Society turned its activities to restoring its organisation and to assisting returning members and students.

1946 to 1949

Broadly, the six years from 1945 were a period of rehabilitation and transition. By the middle of 1951, the Hall had been rebuilt whilst organisation had been re-established and expanded. Attuned to circumstances much changed since 1939, the life of the Society was quickened and invigorated.

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There was determination that the Society must offer

some definite help to members returning from their service to the country. Thanks to the ready response of the Heads and Fellows, three residential refresher courses were given at New College and at Balliol, Oxford, and at Caius, Cambridge (1945–46), at which ex-service members were guests of the Society. Here they met the President (Fred Woolley) personally, who conferred with them on their individual problems: and they received tuition in the current work of the profession, which, through their long absence, was a much-felt want. Happily doubts about employment did not materialise and they were soon absorbed upon being demobilised.

Questions concerning personnel were urgent, and the Joint Liaison Committee made representations to the Ministry of Labour and the Board of Trade about the discharge from the Forces, within the limits of policy determined by Parliament, of men normally engaged in the profession.

There was an equal responsibility towards articled clerks and bye-law candidates to assist resumption of their training and studies interrupted by active service. The principle of reinstatement by former employers facilitated post-demobilisation employment. Already the Council had defined permissible concessions in the examination regulations for ex-Service candidates, and the arrangements were buttressed by a scheme of training and maintenance grants under the Ministry of Labour, subject to express conditions of "training" as distinct from "employment," and to a limitation of period. Later an arrangement for "trainee" agreements with employers was evolved. These arrangements went through a gradual process of change in detail as circumstances altered; and there were grafted on to them, as regards new candidates, the conditions for deferment of military service—continued after the war—for the purposes of examination. Mr. Walter Holman, the Society's representative in these matters, worked with great assiduity.

Before the war there had probably been a rough balance between the numbers of Society articled clerks and bye-law candidates, with perhaps some preponderance of the latter: but with the expansion of the profession and the limitation on articled clerks, the proportion of bye-law candidates increased. The special bye-laws plus concessions became too complicated, and indeed, designed under quite different conditions (1904), they called for complete revision. Accordingly, from May, 1948, the special bye-laws were based on six years' approved professional service, deemed to commence at 17½, or at 16½ if a candidate had then qualified for exemption from the Preliminary Examination: no concession was permissible for military service. A revised examination syllabus (1951) and acceptance, on conditions, of the General Certificate of Education in lieu of the preliminary examination of the Society brought the whole system up to date: admission to the final examination in two parts (optionally) was designed to meet the increasing knowledge demanded. There was also further revision of the syllabus, effective in 1957. Throughout, the basic character of experience required remained unchanged, and the bye-law system was strengthened by a requirement of the formal registration of each bye-law candidate (1953) as well as of articled clerks. Created in 1904, in the light of current circumstances in the profession, the special bye-laws in detail lasted until 1948 and exist in principle in 1957: the Council of 1904 built even better than it thought. Moreover, the system has had a profound influence on the progress of the Society and, indeed, in the profession as a whole.

The Branches and District Societies quickly geared themselves to educational work in a variety of ways and later arranged tuition facilities for examination candidates: short residential pre-examination courses have now become a feature of the London Students' Society, and, in some areas, District Societies made similar arrangements. The annual report for 1950 records 380 lectures organised by district and students' societies, 559 new articled clerks and 804 new bye-law candidates enrolled; and 2,754 candidates for the examinations, of whom 1,163 were for the final (37 per cent. passed).

In the two or three years after the war, the President and the Secretary visited nearly all the district societies: this was a mutually stimulating experience, and was continued as a well-established tradition.

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Three big questions of policy came before the profession immediately before and after the war, in which the Society actively participated: co-ordination, the audit of nationalised undertakings and the Companies Act, 1948.

As early as 1942, Mr. (afterwards Sir) Charles Palmour and Mr. Richard A. Witty (the respective Presidents of the English Institute and the Society) conferred on the organisation of the profession in the United Kingdom after the war. A joint committee of all the recognised bodies was formed. Its objective was the co-ordination of the profession by means of a Public Accountants Act: there would be a Public Accountants Council, having considerable powers, and statutory prescription of the qualifications for practice as a public accountant, for which a licence would be necessary: each body would retain its own independent existence and policy. A draft Bill was agreed, and in 1946 was accepted by the members of the qualifying bodies: final details and procedure were left to the Councils and the Committee. But in the course of further discussions serious misgivings arose on whether a completely satisfactory definition of "Public Accountant" in statutory language—which was fundamental—was possible, without prejudicing vested interests outside the profession; and there were other difficulties. Early in 1950, it was decided that the proposals be dropped. There was disappointment that the project begun with promise could not be brought to a successful issue. However, the discussions did not terminate in controversial deadlock and the labours of the Co-ordination Committee in terms of mutual understanding and knowledge had not been wasted. By this time the Companies Act of 1948 was in operation and suggested another approach to the problem. Sir Harold Howitt had become chairman of the Committee, which continued in being and which later made a proposal to the Board of Trade (*infra*).

The nationalisation policy of the Labour Government of 1945 soon gave rise to questions in the profession about the audit of nationalised industries. Calling on the Secretary of the Society at the end of 1945 or early 1946, a member from South Wales presented an anxious account of the probable effect on his practice of the transfer of a number of collieries to the Coal Board: others were similarly affected. Representations were made by the Accountants' Joint Parliamentary Committee to the Ministries concerned with coal, transport, electricity and gas. It is satisfactory on public and professional grounds, that all the nationalised industries have professional audits by auditors with qualifications already prescribed by Parliament. But nationalisation naturally meant considerable concentration of audit work, and no compensation was payable to displaced auditors. Fortunately, professional work expanded in other directions.

Sir Frederick Alban, President 1947–1949, who had received the honour of Knighthood in 1945, was appointed a member of the Electricity Tribunal and of the Gas Arbitration Tribunal to deal with questions or disputes relative to the transfer of certain undertakings to the nationalised Boards.

The work of the Joint Parliamentary Committee was continued. Even as late as 1956, in the Bills of two joint authorities action was necessary on the old question of professional and District Audit, to obtain an amendment in Parliament giving the authorities a choice between the two kinds of audits.

Following the learned report of the Cohen Committee (1945), a Bill founded on the report became an Act in 1947 and was consolidated with other Acts in the Companies Act, 1948. The terms of the previous Act (1929) regarding accounts were, admittedly, quite inadequate in 1948: their scope was greatly enlarged, *inter alia*, by a schedule to the new Act prescribing in considerable detail the essential contents of accounts, including the profit and loss account: the sections concerning prospectuses were much more stringent. The keynote was greater publicity of the affairs of companies, both for information and as a salutary proceeding, as between directors on the one hand and shareholders and the public on the other. Important to public and profession alike was the fact that auditors of public and "non-exempt" private companies must hold qualifications prescribed by the Board of Trade: Parliament did not extend this provision to "exempt private companies." The bodies whose qualifications were recognised were the English Institute, the Society, the Association, the three bodies of Scottish Chartered Accountants and the Irish Institute: individuals, subject to specified conditions, could be authorised by the Board of Trade. A statutory obligation on a company to appoint an auditor had been in force since 1900; but forty-eight years elapsed before the qualifications of auditors of companies were defined by statute.

The President of the Board of Trade set up a General Consultative Committee on Companies (Mr. Bertram Nelson was appointed on its formation) and an Accountancy Advisory Committee (Mr. E. Cassleton Elliott was similarly appointed): under the 1948 Act the Board of Trade had certain limited powers to amend the schedule relating to accounts.

Whilst the more elaborate proposals for co-ordination had been dropped, the Companies Act defined a partial register. With that situation in mind, the Co-ordination Committee suggested to the President of the Board of Trade that the audit provisions and the rules as to qualifications of auditors should be extended to all companies, that is, including "exempt" private companies. The step, it was thought, would provide a *de facto* register of accountants, whilst avoiding the difficulties of a more precise definition of public accountant. The proposal has not yet been implemented.

An important aspect of the responsibility of solicitors for clients' moneys was before the Law Society about 1945 and was discussed with representatives of the accountancy profession. The Accountants' Certificate Rules for solicitors, 1946, were approved by the Law Society and a copy of a memorandum was sent to every practising member of the accountancy bodies.

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The slightly improved conditions of travel permitted more active relationships with other accountancy bodies and with the oversea branches of the Society; also regular visits to Belfast and Dublin. In 1948, Sir Frederick Alban, President, Mr. Bertram Nelson and the Secretary were the guests of the American Institute of Accountants at a meeting in Chicago and were afterwards entertained by the Canadian Chartered Accountants and by the Society members in Toronto and Montreal. At Chicago Sir Frederick presented a paper *Socialisation in Great Britain and its Effect on the Accountancy Profession*, which created considerable interest on both sides of the Atlantic: prints of this innocent thesis in a parcel excited some suspicion (soon dispelled) on the part of United States Customs Officers. Discussions in Chicago on the treatment of the cost of replacement of assets ranged far into the night; and conversations in Canada assisted growing mutual understanding between the Canadian Chartered Accountants and the Society. An invitation to an Accountants Congress in Sydney, Australia, 1949, prompted the Council to nominate Mr. A. A. Garrett to represent the Society and also to visit the profession in New Zealand and in South Africa. Frank Way, F.C.A. (Australia), Sydney, was the genial President of the Congress, which also marked the twenty-first anniversary of the Institute of Chartered Accountants in Australia, and Mr. Clifford Andersen, General Registrar of the Commonwealth Institute, Melbourne, was secretary. Nothing could exceed the kindness and hospitality with which Mr. and Mrs. Garrett were welcomed everywhere. At Sydney papers were read by Mr. Gilbert Shepherd, past President of the English Institute, who was accompanied by Mr. R. Wynne Bankes, Secretary; and by Mr. F. Sewell Bray, F.C.A., F.S.A.A.

These visits enabled Mr. Garrett to make grateful acknowledgment personally to Committees and Honorary Secretaries of the oversea branches.

Short calls at Bombay and Colombo were made in-

Mr. E. Cassleton Elliott, C.B.E., Senior Past President (President, 1932-35)

Mr. Edward Baldry, Vice-President from 1956

Sir Richard Yeabsley, C.B.E., President from 1956

Mr. A. A. Garrett, M.B.E., M.A., Secretary, 1919-49

Mr. I. A. F. Craig, O.B.E., Secretary from 1950

teresting by the kindness of Incorporated Accountants, who spoke of the recently formed Institute of Chartered Accountants in India and of the progress of the Accountancy Board in Ceylon.

On December 31, 1949, Mr. Garrett retired from being secretary, after forty-one years' service with the Society: in May, 1950, Mrs. Garrett and he were entertained at dinner and were presented with some handsome gifts and with many kind thoughts expressed by the President (the late A. Stuart Allen), Sir Thomas Keens, Mr. Edward Baldry and Mr. Mervyn Bell, Dublin.

1950 to 1957

The Council appointed as Secretary Mr. I. A. F. Craig, O.B.E., formerly an officer on Lord Mountbatten's Combined Staff (S.E.A.C.), who was already Deputy Secretary, and as Deputy Secretary, Mr. C. A. Evan-Jones, M.B.E., who had been a Gordon Highlander and a Brigadier. Quickly they brought to the work of the Society fresh minds and new ideas, and established friendly relations with secretaries of other bodies at home and overseas and with institutions and Government departments with which the Society had connections, as well as with the branches and district societies. With much insight they provided, through the Council, more information for members; and the annual reports, syllabuses and other Society literature became, as increasing paper supplies permitted, more interesting in content and artistic in appearance.

The much damaged Hall had been patched and shored up early in 1946, and meantime Sir Percy Thomas, P.R.I.B.A., prepared plans for restoration and for an additional wing. After much delay, a licence, limited to restoration, was granted, and work commenced in 1948, when the administration was moved to, and was conducted for two years, amid a good deal of discomfort, in a disused warehouse at the rear of the Hall. The job of restoration was well done and was completed by the middle of 1951. The Hall was refurnished and gifts towards extras were generously made by the South African branches and others. The Council and Committees could once again meet in suitable and dignified rooms, the expanding administration was more efficiently accommodated and the library service improved: but with the development of a Research department, the welcome advent of an Appointments Officer (Mr. F. H. H. Finch) and expansion of Students' Society, examinations and ACCOUNTANCY, some additional rooms in neighbouring offices had to be rented within a year or two of the date of re-occupation. After valued help over several years from the Chartered Auctioneers' Institute and the Royal Institute of British Architects, the large hall became once again the setting for general and other meetings of members. The Council was able to entertain at dinner from time to time distinguished guests in the Society's own home: an excellent development has been dinners given by the London Students' Society.

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Two important changes in the constitution of the Society were approved by the members. After legal advice in 1954 the title was abbreviated, with much advantage, to the "Society of Incorporated Accountants" (omitting "and Auditors")—a proposal which had long since been mooted but which for good reasons had not been previously recommended. The permissible number of Council members was increased in 1949 from 30 to 38: a further revision (1955) brought to 36 (including one from Scotland) the number affected by periodical retirement and re-election, plus all Past Presidents who wished to serve. Elected in 1949, Miss P. E. M. Ridgway, Hull, was the first woman member of Council, and the Council also comprised members who held important appointments in industry.

After intensifying its work, Mr. Bertram Nelson in 1952 relinquished the chair of the Research Committee to Mr. F. Sewell Bray, who had become Senior Nuffield Fellow in the Department of Applied Economics, Cambridge. In 1948 the Cambridge University Press had arranged to publish *Accounting Research* for the Research Committee, under the joint editorship of Mr. Sewell Bray and Mr. Leo T. Little, as a quarterly periodical, which attracted subscriptions and contributions from all over the world. In order to give a higher place to research as a function of the Society, the Council founded the Stamp-Martin Chair of Accounting at Incorporated Accountants' Hall (1952) to which Mr. Sewell Bray was elected as the first Professor. It was the first chair of its kind sponsored by a body of accountants. Mr. T. W. South, barrister-at-law, became secretary to the Research Committee. Professor Bray surrounded himself with some keen minds, and advanced discussions at seminars were opened by members and visitors. There also began to be issued a number of "Practice Notes," the work of people interested in research, as well as works by Professor Bray himself, written with meticulous care. In 1947, he and Mr. H. Basil Sheasby prepared *Company Accounts under the Companies Act, 1947* (and 1948)—a booklet setting out with full references a skeleton form of company accounts, which was well received and went to several editions.

A pronounced feature since the war has been the considerable number of government committees appointed to enquire into matters upon which the Society—either singly or jointly with others—has tendered evidence. Needless to say, the preparation of the evidence involved an enormous amount of work on the part of members of the Council and the Research Committee. The interesting list of subjects is long and two references only are possible. Presented with lucidity and the least possible amount of technicalities, the report of the Royal Commission on the Taxation of Profits and Income (1955), of which the chairman was Lord Radcliffe, was both impressive and readable. The terms of reference referred to the necessity "to maintain the revenue from profits and income," and two years later increased significance must be attached to the general premise, subject to which the Commission conducted its deliberations, that "there will not be any marked increase or decrease in the purchasing power of money." The welcome Millard Tucker

recommendations on retirement provisions were the basis of the reliefs given in the Finance Act, 1956, affording pension opportunities for the self-employed.

The sudden death of H.M. King George VI in February, 1952, was a great shock to the nation. A Loyal Address of condolence submitted to H.M. Queen Elizabeth II was followed in 1953 by a Dutiful Address of Congratulation on her Coronation. The President of the Society (Mr. C. Percy Barrowcliff) had the honour of a Command to attend the Coronation.

The branches of the Society in South Africa were increasingly active, and the Public Accountants and Auditors Act, 1951 (South Africa), put the profession in the Union on a statutory basis. Under the Act, the Society was entitled to a representative on the Public Accountants' Board, and other members, in their capacity as Chartered Accountants (S.A.), have held various offices. An addition to the Society's oversea connections was the establishment of a Central African Branch in 1954.

In 1952 was held the International Congress on Accounting, sponsored by the accountancy bodies in Great Britain and Ireland. The meetings were in the Festival Hall, London. The President was Sir Harold Howitt, F.C.A., the Vice-President, Mr. C. Percy Barrowcliff, F.S.A.A., and the Secretary, Mr. Alan MacIver, whose work of organisation met with high appreciation. Representatives from all over the world were entertained in London, in Scotland and in Ireland. The Society gave a number of functions to visitors in its own Hall.

The seventh International Congress took place in Amsterdam as recently as September, 1957, organised by the bodies of accountants in the Netherlands, the President being Mr. J. Kraayenhof and the Secretary Mr. A. L. de Bruyne. The Congress, which was honoured by H.M. the Queen of the Netherlands and by H.R.H. Prince Bernhard, the Prince of the Netherlands, was a fine organisation, fruitful in discussions and heart-warming to visitors, among them a delegation from the Society headed by Sir Richard Yeabsley, C.B.E., President.

Among those in the Society who during the years after the war held high public office were Sir Thomas Keens, D.L. (President 1926–29; *obiit* 1953), Chairman of Bedfordshire County Council 1935 to 1952: Sir Arthur Middleton (Member of Council, *obiit* 1953), Chairman of the London County Council in the Coronation Year; and Right Hon. Ernest Marples, M.P. (member of the Society), now H.M. Postmaster-General.

And regretfully the obituary contains the names of many who gave their interest and affection to the Society: C. Hewetson Nelson, Liverpool, then Senior Past President; Fred Woolley, Southampton, President 1945 to 1947; A. Stuart Allen, London, President, 1949 to 1951; J. Paterson Brodie, Stoke-on-Trent, Vice-President in office, *obiit* 1948; Sir Harry Hands, K.B.E., Cape Town, Chairman, South African Western Committee, 1921 to 1932; James Paterson, Greenock, Scottish member of Council, 1906 to 1953; William Strachan, London, sometime Assistant Secretary and Editor of the *Journal*; James C. Fay, Society's Chief Clerk, 1909 to 1945, and Secretary, London Students' Society.

By 1954, and in 1957, the Society had branches in Scotland and Ireland, seven branches in the Commonwealth and twenty-four District Societies (two in India).

The final published list of members (March, 1957) recorded a membership of 11,335 together with six honorary members—Mr. Walter Holman, J.P., F.S.A.A., who gave unstinted and able service as President and Past President, Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., F.C.A., President of the sixth International Congress, Mr. G. O. May, F.C.A., C.P.A., Past Vice-President of the American Institute of Accountants, Professor J. R. N. Stone, C.B.E., M.A., P. D. Leake Professor of Finance and Accounting in the University of Cambridge, and Mr. A. A. Garrett, formerly Secretary of the Society. The Senior Past President is Mr. E. Cassleton Elliott, C.B.E.

* * *

The issues involved in integration and its merits are too recent and familiar for any worthwhile comment; moreover, they have been adjudged and doubts removed by the positive and welcome decision of the members of all the bodies concerned. But personal views and negotiations apart, can it not be said that integration arose from the economic and financial situation of the times, which has led to the great expansion of the profession, and from present social circumstances with their emphasis on individual opportunity? With formalities concluded on November 1 last, 1957 redeemed 1897 (see page 465 of the last issue of ACCOUNTANCY).

No tribute can be too high for the work and wisdom of the Presidents, Vice-Presidents and others, who, with the respective Secretaries of the Institutes and the Society, carried through the negotiations with goodwill and imagination: and particularly as regards the Society, Sir Richard Yeabsley, whose able conduct of the integration meeting called forth a fine response from the members; Mr. Edward Baldry, the Vice-President; and Mr. Bertram Nelson, immediate Past President. A word of gratitude is indeed meet but quite inadequate for all the labours of Mr. Ian Craig, Mr. Evan-Jones and the Society's staff; and all will join in a cordial wish that the necessary administrative adjustments will afford them happy surroundings and increasing opportunities. For many on the Council and in the Branches and District Societies the constitutional changes may mean a transformation from an active into a more passive association; and they will carry with them the good wishes of all Incorporated Accountants and appreciation of their valued services to the Society.

Although the Society as a legal entity will cease, its spirit will live; and those who have hitherto owed it allegiance will continue to enjoy their professional privileges and sustain their responsibilities with even greater promise as members of one of the Institutes of Chartered Accountants, the Presidents of which have already expressed a feiicitous welcome.

(*Concluded*)

Accountants are usually so absorbed in direct taxation that there may be a danger of overlooking the accounting implications of purchase tax (which yields almost as much as surtax, estate duty and profits tax combined). Our contributor gives a guide to the tax from the accountant's viewpoint.

Purchase Tax and the Accountant

[CONTRIBUTED]

"A TAX, to be called purchase tax, shall be charged, subject to and in accordance with . . . ." Thus Section 18, Finance (No. 2) Act, 1940, records the birth of purchase tax.

Since then innumerable amendments and extensions have been introduced. Rarely has a Finance Act in the seventeen years failed to alter at least some detail. Important among these amendments are: Section 20, Finance Act, 1942, by which purchase tax became a preferential debt; the Finance Act, 1946, which brought within charge goods resulting from a chargeable process; the Finance Act, 1952, introducing the "D" scheme, and the Finance Act, 1957, Section 9, which extended to purchase tax the Provisional Collection of Taxes Act, 1913.

From the beginning the Commissioners of Customs and Excise have been charged with the care and management of the tax, drawing upon their wealth of experience gained over the centuries from levying duties on imported goods (customs duties), and more particularly on certain articles manufactured in this country (excise).

Below are examined some of the more important aspects of the law and practice relating to purchase tax which may affect accountants.

Taxable Products

There is no general principle governing the types of goods that are subject to purchase tax. However, following the broad motive behind the tax, the majority of chargeable goods may be termed consumption goods as distinct from production goods. But the relativity of these terms in changing circumstances, combined with the non-exemption from tax of normal consumption goods used for industrial purposes, for example, electric and gas radiators for factory heating and stationery for office use, precludes a definite dividing line.

Thus, to discover whether or not a certain article is subject to purchase tax, it is necessary to examine the legislation or the notices issued by the Commissioners or to consult the local Officer of Customs and Excise, noting in all cases its likeliest group of taxable articles. There are now thirty-five groups of taxable articles ranging from group 1 (garments) to group 35 (road vehicles and cycles). Broadly, the chargeability of an article is determined according to its character and not with reference to its use. Thus lino tiles are chargeable as floor coverings (group 9); wall tiles are exempt. Imagine the lino tiles are fixed on a wall, and the wall tiles are fixed on the floor. The fact that the articles have been unusually used does not affect the chargeability to purchase tax.

The tax rate payable varies according to the group—at present it may be *nil*, or 5, 10, 15, 30, 50 or 90 per cent. If an article, for instance, a golf bag, is chargeable under more than one group, the normal practice is to include it under the highest tax rate group, which in this example is group 23.

With the innumerable innovations and inventions now coming from industry it is important that for each new product confirmation of its purchase tax status is obtained from the authorities. New products are vetted centrally at the "head office." Failure to vet them might result in purchase tax being paid unnecessarily, thereby prejudicing the commercial success of the article in competition with its predecessors or competitors. It might also involve the trader in a retrospective charge to purchase tax irrecoverable from customers.

Disputes regarding chargeability seldom reach the courts. Normally they are submitted as a joint case for determination by an independent member of the Bar.

Registration

It is only those traders dealing in chargeable goods who are concerned with purchase tax. But of this group further classifications are required: manufacturers, wholesalers and retailers. In the scheme of purchase tax the wholesaler is the "king pin." It is when chargeable goods leave him (or the equivalent) for the retailer (or the equivalent) that tax becomes chargeable; and the price value of this transaction broadly fixes the purchase tax value.

Manufacturers and wholesalers (but not retailers) dealing in chargeable goods must be registered with the

Customs and Excise. The actual registration is no more than a formal declaration, but thereafter there must be submitted to the authorities a quarterly return of chargeable transactions (even if *nil*) and the regulations relating to accounting and so on must be strictly complied with. It should be noted, however, that registration may be specific. Thus a concern processing its own stationery will require to be registered for that activity. That registration will not necessarily extend to other chargeable goods.

In practice, particularly with groups of companies in vertical combination, a rigid classification on the above orthodox lines is not always possible. For example, at the one extreme the manufacture, distribution and retailing of a chargeable article may be concentrated in one company. At the other extreme, a group may comprise a manufacturing company, several wholesaling companies and possibly also separate retailing or contracting concerns. Registration of those within the registration classes is obligatory, but traders are not precluded from arranging their affairs in order to enter or be excluded from the registration classes.

What, then, is the value of registration? Firstly, the registered trader buys tax free. By so buying he economises on working capital and avoids losses on reductions in the rates of purchase tax (but foregoes profits on increases in the rates). Secondly, he is in a tax-free "ring," for registered traders may buy from and sell to one another, complying with certain formalities, without purchase tax being exigible. Thus transfers of chargeable goods between associated wholesalers may be exempt from tax at that stage. Thirdly, ordinarily only registered traders may sell tax free to exempt customers—for example, by way of exports or of sales to certain government Departments, such as the General Post Office, the United States Army Air Forces in Britain and certain shipyards. To an extent it must be conceded that this is an illusory advantage. Thus, suppose two traders tender for a government Department contract; one is registered, the other is not, and the contract involves chargeable goods. The former will tender tax free: other things being equal, his tender should succeed. But the regulations provide that the Department will take purchase tax into account in comparing such tenders.

The disadvantages of registration are few and insignificant. Mention has already been made of returns which keep the trader under the surveillance of the Customs and Excise. But it must be remembered that the Customs authorities, like the police, do not confine their attention to the man with a record. Secondly, the registered trader must state the amount of tax due from him on any invoice to a customer (a retailer) who is buying for resale.

If a retailer extends his business to embrace wholesaling and by so doing falls within a registration class, registration within fourteen days thereafter is obligatory if heavy penalties are to be avoided. A retailer or contractor may perhaps extend his activities to include some exporting or other tax-free work: then registration will be desirable but not obligatory. In both instances, on registration the tax is due straight away on chargeable sales but relief is available, provided it is applied for, in respect of taxed stocks in hand at the date of registration.

In accounting for purchase tax, as generally with purchase tax, each member of a group of companies is strictly regarded as a separate entity.

Wholesale Value

Purchase tax is chargeable on what is known as the "wholesale value." This is broadly the standard price at which a hypothetical wholesaler (assuming there is no actual arm's length wholesaler) will invoice chargeable goods to an independent retailer. How the retailer recoups the tax is immaterial in determining the tax. If the trader cannot agree with the Customs and Excise a wholesale value for any chargeable goods, he may request that the dispute be referred to the arbitration of a referee, whose finding will be final. Pending arbitration the trader must account for purchase tax on the basis of the wholesale value as determined by the Customs and Excise. It will be seen that the authorities are in a very strong position in enforcing their conception of the wholesale value. If the trader disputes this valuation he must to an extent gamble with the tax in dispute.

Normally the wholesaler simply adds purchase tax at the appropriate rate to the standard invoice price of the chargeable goods. But adjustments may be necessary under three headings: (1) if the basic invoice price is unacceptable for purchase tax purposes; (2) if certain charges must be included; and (3) if concessionary adjustments apply.

Adjustments under (1) will serve to inflate the wholesale value when the retailer buys in large quantities and obtains a trade discount greater than his competitors. Similarly when the retailer performs wholesaling functions or otherwise has some special buying advantage, for example, a shareholding connection, or when the wholesaler mainly sells to large buyers, for example, chain stores. The object of the "uplift" secured by these adjustments is to ensure that each trader has one reasonable and standard price for each chargeable product as far as purchase tax is concerned.

Adjustments under (2) come about because in the wholesale value for purchase tax purposes must be included the cost of packing and charged containers, cutting charges and so on, and the cost of delivering the goods to the buyer's place of business. Commissions and similar charges incidental to the making of the contract are assumed to be payable by the seller when calculating the purchase tax value. Thus, if goods are sold on carriage forward terms an adjustment must be made to the invoice price. Should it be difficult to ascertain this cost an agreed percentage addition (minimum $2\frac{1}{2}$ per cent.) is added to the invoice price.

A concessionary adjustment under (3) applies if invoice prices include carriage, but with the condition that certain small orders will attract a carriage charge. In these circumstances, provided that the "small order" transactions are trivial in relation to the total business, say, not exceeding 10 per cent. of the normal total, the Customs may grant

concessional relief to exclude the extra delivery charge from the wholesale value.

Where cash discount is available to all buyers the wholesale value may be consequentially reduced. It is important to note here that "availability to all" is the prime condition. That a buyer may forfeit the discount by late settlement does not prejudice the position. Normally the Customs and Excise will regard a 5 per cent. cash discount as the very maximum rate. If to the cash discount there is attached a minimum quantity qualification, the discount will still be deductible from the invoice value, but only on qualifying invoices, provided the quantity fixed covers the bulk of the sales, say, 90 per cent.

Reliefs from Purchase Tax

If tax-paid raw materials are converted into chargeable goods concessional relief is available to have the tax already borne on the materials offset against the purchase tax due on the sale of the finished article.

If goods are supplied on "sale or return" or "on approval" terms the property in the goods passes only when the buyer accepts them (by the Sale of Goods Act, 1893, Section 18, Rule 4). The purchase tax regulations cover this circumstance by departing from the rule that chargeable goods leaving a tax-free store otherwise than *en route* for another registered trader become chargeable to purchase tax. Provided such transactions are genuine the Customs and Excise will by concession allow purchase tax to be accounted for from the date of acceptance. But the time lag between delivery and acceptance must be reasonable. Special records, such as those recommended in leading textbooks, must be maintained.

For defective goods and for goods damaged or lost in transit, relief is available to the seller in respect of purchase tax charged on the goods to non-registered buyers, provided credit is given by the seller. But this relief is not available if damaged or lost goods have become part of the retailer's stock or if the terms of the sale preclude the seller from any liability in this respect.

It will be appreciated that purchase tax is invariably paid by the wholesaler before he is reimbursed for it by the buyer, but a concession is available for bad debts incurred in respect of chargeable goods. In the main the concession is restricted to retailers defaulting, and if insolvency is the ground, relief is delayed until final distribution of the assets.

Purchase tax is recoverable from the wholesaler not only on sales of chargeable goods to retailers but whenever he appropriates them. Thus gifts by the wholesaler and his "home consumption" of chargeable goods attract tax. A concession is available on samples. To qualify, the samples must be (1) free, (2) supplied unconditionally, (3) of small quantities and of little individual value and (4) supplied as such in accordance with the custom of trade.

Occasionally a batch of production is not up to standard. If it is sold at normal standard prices purchase tax is chargeable on the agreed wholesale value in the normal manner. Alternatively, the trader may decide to sell the sub-standard article at a reduced price. Provided the local Customs Officer is given prior notice, including an opportunity to inspect the goods and agree a revised wholesale value, purchase tax need be charged only on the revised invoice value.

Miscellaneous Accounting Points

Registered traders are required to keep adequate accounting records to cover taxable transactions. The requirements, although comprehensive, will not increase duties in an efficient accounting department. Records affecting purchase tax must be retained for at least two years.

For purchases, the Customs require the registered trader to keep an adequate day book (or its equivalent). Records (orders, invoices, and so on) of chargeable goods and materials used for their production, must be maintained, showing:

(*a*) whether they were bought tax paid or tax free, and

(*b*) the seller's particulars.

If a registered trader employs outworkers and the like, their names, addresses and work done must be recorded.

Sales documents must be serially numbered and the numbering controlled unless some other means of control is adopted to the satisfaction of the Customs. Appropriations of chargeable goods, including transfers to branches, must be adequately recorded and cross-referenced to supporting vouchers—orders, delivery notes, and the rest. Separate records are needed for goods on "sale or return," sales on commission on behalf of someone else, and credits. For tax-free sales to other registered traders, exports, sales to exempt government Departments and sales of certain tax-free secondhand goods, the supporting vouchers must be duly noted with the authority for exemption and be available for inspection.

Stock records will be a useful addition to the books, records and documents mentioned, but their maintenance is not obligatory.

The auditor is concerned with purchase tax in so far as the Customs and Excise expect him to examine the purchase tax account and supporting records. Whilst he is not regarded as a purchase tax expert (Customs Officers themselves carry out technical inspections), he is expected to check the routine accounting and internal control aspects of recording purchase tax.

Liquidators, trustees or receivers who dispose of chargeable goods in the course of winding up a business must account for purchase tax in the normal way. On liquidation or bankruptcy, the amount of any purchase tax due at the relevant date, having become due within the previous twelve months, is a preferential debt (Companies Act, 1948, Section 319 (1) (*a*) (iii)).

If purchase tax changes are introduced relating to a particular group of products—as, for example, on April 10 last, when the purchase tax rate for domestic and office furniture was reduced from 30 per cent. to 15 per cent.—it must be remembered that the alteration applies only to goods appropriated on or after the date of change. Suppose goods left a registered trader's tax-free store on April 9, 1957, and reached the retailer on, say, April 11,

1957. The goods are chargeable at the old rate. This procedure is convenient to the retailer when the tax rate increases. But if as happened last April the tax rate decreases the retailer suffers a loss and has no redress unless he can discover some genuine reason (the fall in the tax rate is not a genuine reason) for returning the goods. Purchase tax would then be reclaimed at the old rate. Section 10 of the Finance Act, 1901, applies here also and provides that where any goods are delivered after the date on which a Customs duty is introduced or increased, under a contract made before that date, the seller may recover as an addition to the contract price the amount of the new or extra duty. Conversely where an abolition or reduction occurs a deduction from the contract price is necessary. However, there is nothing to prevent the contracting parties agreeing to ignore those provisions.

For traders holding material stocks of chargeable goods the question arises whether some reserve should be established and maintained to cover losses arising on reductions in the rates of purchase tax. In any event where such a loss is incurred (or vice versa, a profit) its amount should be ascertained and, where material, disclosed as an exceptional item in the profit and loss account. (Companies Act, 1948, 8th Schedule, Paragraph 12 (6) (*a*)). In these circumstances income tax and profits tax need to be taken into account in view of the admissibility of purchase tax on trading transactions. Reserve movements should be similarly computed. If a special reserve is deemed advisable—its omission could hardly call for a qualified auditor's report—consideration should be given to the relationship of the level of the stocks at the date of the balance sheet and at normal Budget times.

A Tribute

A golden rule in purchase tax matters is: when in doubt consult the local Officer of Customs and Excise. Although busy men—the hours of business noted on their office doors rather understate their hours of duty—they will prove to be fair, honest and helpful—in fact, stalwart upholders of the traditions of a world-renowned service Department.

We give summaries of two of the papers prepared for the International Congress of Accountants held at Amsterdam last September, with reports of the discussions. The other papers and discussions were covered in our issues of October and November.

The Internal Auditor

Mr. W. A. Walker, C.P.A. (*Controllers Institute of America*) said that the function of an internal audit division was not only verification of the accuracy of accounts, but also to make suggestions for improvement.

The work of the internal auditor should be accepted as for the benefit of all levels of management. Most of his findings should be handled not by the President or Board but at lower levels. He must be helpful rather than critical, and each item must be discussed with the immediate supervisor before being referred to a superior.

Top management must ensure that the audit staff had full access to all departments and records of the company. Auditing was not a substitute for management, and the auditors had no authority to instruct anyone. Routine checking was not auditing, and it was an abuse of the concept of internal audit to use audit staff for the work of "live" departments.

It was generally more productive to conduct an intensive audit on particular points rather than to attempt to cover the whole field of responsibility of any department. The audit must ascertain whether the policies of the company and sound business practice were adhered to, whether the procedures were adequate for complete internal control, whether revenue was fully protected and costs at a minimum. Attention was not confined to the accounting department, but extended to every function involving protection of assets, revenue or costs.

The internal audit department could be responsible to any officer of sufficient rank to ensure adequate consideration of its findings. The auditor must maintain his own independence of outlook. The audit division should be a training ground for executive positions throughout the corporation.

Internal audit differed in basic approach and emphasis from the balance sheet audit by public accountants, and contemporary literature overstated the extent of possible co-operation.

Mr. R. A. Irish, F.C.A.(AUST.) (*Institute of Chartered Accountants in Australia*) considered that internal audit might reach its peak of fulfilment when it encompassed both financial audit and "management audit."

An important function of internal audit was the prevention or discovery of fraud. A more constructive role was to serve management by sifting the detail of daily operational efficiency and identifying features needing executive judgment and decision. Audit called for judicial detachment; it must be distinguished from internal check or control, and must not be combined with active

management functions.

The external auditor should participate in planning the internal audit programme and approve its final form, and it was important that he should receive direct a copy of every internal audit report. The internal auditor would derive strength from the backing and co-operation of the public auditor. The status of the internal auditor would be strengthened if he bore some legal personal responsibility: the best solution might be the voluntary advancement of standards through specialist professional bodies.

The internal auditor must have integrity and the will to do what was right regardless of personal consequences. He should have the complete trust and support of management and adequate status, being accountable only to the highest strata of management.

He must pass the examinations of a reputable accountancy body in general accounting and auditing. But he needed also specialised study, tested by the examination of a recognised body of internal auditors. His practical training should include experience in a public accountant's office as well as in the undertaking itself. The professional training would give a wider experience and a sense of responsibility, honesty and courage in holding to an opinion.

The external auditor was turning from the old detailed audit to matters of policy and principle. This trend was possible only if internal audit took care of detailed accuracy and protection against dishonesty. The internal auditor would have a brilliant future in auditing for management.

Mr. L. G. Macpherson, F.C.A.(CANADA) (*Canadian Institute of Chartered Accountants*) said that developments had been so rapid that it was difficult to mark the boundaries of internal auditing: some writers would extend it over the whole field of business operation, while others confined it to the traditional auditing function.

The internal auditor could be independent in respect of operations at all levels below the status of his department, but not above it. The protective aspect of his work was more important than the constructive one of criticism and recommendations, which could be obtained from management consultants.

The external auditor could rely extensively on the internal audit if he had satisfied himself of its effectiveness. He could not avoid his responsibility, but the internal audit staff could assist in the confirmation of receivables, cash counts and observation of stocktaking, the preparation of schedules and analyses, and generally by greatly reducing the attention the internal auditor must give to transaction details and freeing him to devote more time to the analysis of operations and appraisal of the fairness of the financial statements.

Internal and external auditors had different viewpoints and responsibilities. Thus the internal auditor must see that company policy was followed, even if it conflicted with accounting principles, and his views and recommendations could only be reported to management, while the external auditor would see that matters were adjusted or include them in his published report.

But internal and external auditors, with mutual respect and confidence, were working towards the same ideals.

Mr. Ernest Sinnott, F.I.M.T.A., F.S.A.A. (*Institute of Municipal Treasurers and Accountants*) said that internal audit was needed when a business or a local or public authority became so large that its responsible managers were not themselves in constant touch with operations and able to make all significant decisions, while systems and procedures were complex and transactions too voluminous or too technical for an external auditor to cover matters of detail.

The responsibilities of an internal auditor were to management, not to shareholders or ratepayers. His functions were the prevention and detection of fraud and error, detection and reporting of non-compliance with financial regulations and accounting instructions, and suggestions for improvements in systems and methods. There should be some co-operation with organisation and methods staff, but no duplication of work.

It was most desirable that the internal auditor should be a member of a recognised professional accountancy body. He should acquire information about the technical, economic, legal and administrative aspects of the organisation he served. He should have a degree of independence, but Mr. Sinnott considered that he should be responsible to the treasurer, comptroller or other chief financial officer. He must conform to the highest professional standards in such functions as he performed, but the scope of these would quite properly be prescribed by top management.

That the external auditor could derive much assistance from the internal auditor was the view expressed by the Institute of Chartered Accountants in England and Wales in its *Notes on the Relation of the Internal Audit to the Statutory Audit*, published in 1953. District Auditors also made extensive use of the work of internal auditors. The internal audit programmes and reports should be available to the external auditor. The two forms of audit were complementary.

If the organisation covered a wide area, it was possible for the internal audit staff to be based at headquarters and travel to the branches, or for some to be attached to each branch. Probably the best method was to establish teams at convenient centres, under close supervision from the chief internal auditor.

Reports should be made as soon as audits were completed, rather than at fixed times. Electronic accounting did not involve any changes more fundamental than those resulting from earlier mechanisation.

Mr. W. N. A. F. Stokvis (*Netherlands Institute of Accountants*) said that the functions of the internal auditor were to give his expert opinion on the internal financial statements; to judge the efficiency of the accounting system; and to provide the management with information, especially on the planning and delegation of the duties of subordinate executives and the control of performance of delegated tasks.

The internal auditor should be a qualified member of the profession, belonging to the same professional body as the public auditor or to one of equal standing. His audit must include activities on all executive levels: he must therefore receive instructions only from top management, not from the controller or chief accountant. His department should not be a training ground for promotion to other departments, nor should staff be transferred from the accounting to the internal audit department, as either arrangement would detract from the independence of the internal audit staff.

The internal auditor could make suggestions to management on matters of accounting, organisation or general policy.

There could be helpful collaboration with the statutory auditor. The internal auditor should be allowed to give to the public accountant any information of importance, and copies of all his reports, and the internal audit programme should cover all procedures deemed essential by the public accountant. The public accountant would

satisfy himself that the internal auditor duly carried out these procedures and would check his work on a test basis. There should be a rational division of duties between them to avoid unnecessary duplication of work.

DISCUSSION

The *rapporteur*, Mr. W. A. Walker, C.P.A. (U.S.A.) said that internal auditing was the youngest branch of the accounting profession and was growing up fast.

He regretted that contemporary literature dealt with the purely financial approach, which was decisive for the public accountant's work. Some authors held the opinion that the main purpose of the internal auditor was to perform detailed work which was thus taken from the public accountant's shoulders. Others, however, stated that the internal auditor was first an aid to the public accountant, but now had a protective and constructive function on behalf of management.

As to his status within the organisation, there was also considerable difference of opinion, but there seemed to be general agreement that the internal auditor should present facts, even when in conflict with existing company policy. As to the advisory function there seemed to be no agreement either, but in practice a skilful approach would solve the difficulties.

Summarising, Mr. Walker said that the internal auditor was gradually moving away from the old form of detailed audit, but that he was still essentially a fact finder—judgment of the facts should be left to the management.

The discussion leader, Mr. B. Smallpeice, B.COM., A.C.A. (U.K.) suggested that the first question was: what should be the scope of the function of the internal auditor?

Mr. W. R. Davies (U.S.A.) quoted the statement issued by the American Institute of Internal Auditors, to the effect that internal auditing was a staff function, having no direct authority over other functions. It was a basis for protective and constructive service to management, dealing primarily with accounting and financial matters, but also with matters of an operating nature.

Mr. Stokvis (Netherlands) maintained that the internal auditor's function should primarily be a protective one. Internal audit was an essential element in the organisation. The constructive function would be based on the specific knowledge acquired in the performance of the protective function.

Mr. Macpherson (Canada) was afraid that the internal auditor with a constructive approach would be tempted to go too far into operational aspects.

As to the status of the internal auditor, there seemed to be general agreement that he should be a man with a psychological feeling for independence and that he must be very high in the hierarchy of management.

Mr. B. Hansen (Denmark) remarked that the internal auditor was an employee of the company, whereas the public accountant was appointed by the shareholders and was also responsible to third parties. To a certain extent they had a common task and there should be sufficient co-ordination to avoid unnecessary duplication of work.

Mr. Irish (Australia) believed that the public accountant, when drawing up his programme, should consider the internal audit as complementary to the internal control. The public accountant was not responsible for shortcomings of the internal auditor, though he might have to fill the gap. To a question from the floor, asking at what stage in the growth of the business an internal auditor would be required, Mr. Irish answered that a yardstick might be the volume of transactions and/or the number of employees.

It was observed that membership of one of the recognised professional accounting bodies might be useful as a guarantee of the professional abilities of the internal auditor.

Another question was whether there was a yardstick by which the value of the service of internal auditing could be measured. Mr. Sinnott (U.K.) answered that one could not measure the usefulness of fire brigades by the number of calls they answered. The value of the internal auditor was to be found in his continuous appraisal of figures and systems.

Mr. Smallpeice, summing up, said that notwithstanding conflicting views, it might be concluded that the internal auditor's function was basically a protective one, but that beyond that function there should also be a constructive approach. He should not try to embrace everything because then he would be the managing director. As to his status, there seemed to be agreement that he must have weight in the organisation sufficient to ensure that his opinions were taken into account.

Ascertainment of Profit in Business

Mr. G. L. Groeneveld, EC.DRS. (*Netherlands Institute of Accountants*) said that in the Netherlands much respect was paid to the theory of Th. Limperg, Jr., that all valuation for both balance sheet and profit and loss account should be based on replacement values.

In stock valuation, the LIFO principle was recognised in American and Dutch tax law. But the base-stock system in all its forms had disadvantages, and replacement value was more suitable to differing circumstances.

Tax law must be exact, and taxable profit differed from profit ascertained by accounting principles. But in the long run all profits would be taxed, and it was therefore necessary to provide for the normal rate of tax on the income ascertained and published in the annual report.

A year was an arbitrary period, and many items must be charged to years in which they were not incurred. Some would even regard unknown risks of the future as chargeable on present profits: this would logically mean that there was no profit. B. Pruyt had said that the auditor's certificate should always be qualified, because no conception of profit was valid under all circumstances.

But profit should be clearly determined on replacement values, and future uncertainties could have no effect on its calculation.

Mr. Ira N. Frisbee, C.P.A. (*American Institute of Certified Public Accountants*)

considered that profit could never be accurately determined except in a statement covering the entire life of a business. The investor when receiving dividends should know that his capital was maintained.

The principle of replacement value was now being used by important companies in the Netherlands. Mr. Frisbee preferred "adjusted historical cost," a method by which historical cost was converted to a current dollar basis by the use of an index of general prices. So far little use had been made in the United States of this or any other method of adjusting for price-level charges, although recommendations had been made by committees of the American Institute and the American Accounting Association.

There were risks arising from reporting profit for annual or other arbitrary periods—for instance, in the treatment of instalment sales or of expenditure on research. Changes in the business cycle should be anticipated if possible.

In the United States, "generally accepted accounting principles" were followed rather than economic concepts of profits. Unfortunately, taxable profits often differed from profits based on either economic or accounting principles.

Professor Palle Hansen (*Foreningen af Statsautoriserede Revisorer, Denmark*) analysed the results of a company over its life of eleven years in order to show how widely the profits and capital value shown by "so-called conservative principles of accounting" differed from the true economic profits and values. Accounting, he said, worked from the profit and loss statement to arrive at values for items in the balance sheet, whereas from an economic viewpoint the assets and liabilities should first be valued on the basis of an estimate of their future yields, and the income and expenditure derived from these.

Professor Hansen presented arguments against a number of widely accepted accounting conventions. He considered that a choice should be made between two alternatives: either accounting statements should be regarded only as historical narratives, not distinguishing between income and capital gains, or an attempt should be made to show economic values. The accountant who chose the latter course must take account of future probabilities. It would be wise to include in the annual report information on factors which the accountant had not dared to include in the balance sheet.

Mr. C. I. R. Hutton, B.A., C.A. (*Institute of Chartered Accountants of Scotland*) regarded the present attachment in the United Kingdom to mathematical accounts based on historical cost, with the rigid regulations on profit and loss accounts in the Companies Act, 1948, as partly a reaction from the excessive latitude previously allowed to "personal opinion." But accounts thus drawn up were not suitable for the additional purposes for which they were now required to be used, such as price fixing, wage negotiations and taxation.

Some of the difficulties of ascertaining profits arose from the artificial concept that this could be done at yearly intervals. The Companies Act required disclosure of corresponding figures for the previous year, and in prospectuses profits or losses were shown for five or ten years. Natural over-caution in the annual accounts tended to eliminate itself over a period, but some readjustments might still be required to clarify the trend of results.

The Inland Revenue had given rather more generous allowances for depreciation of machinery and plant than the historical cost basis would warrant. On provision against contingencies the Revenue view was narrower than that of businessmen and their accountants. But on the whole, in the United Kingdom, profits for tax purposes were not normally very different from the profits as ascertained in business accounts.

Professor Dr. Leopold L. Illetschko (*Kammer der Wirtschaftstreuhänder, Austria*) considered that the use of the actual prices paid for assets introduced a factor of distortion owing to changes in purchasing power; this was difficult to eliminate. The effects of cyclical fluctuations were allowed for by valuing assets at the lower of cost or current values.

The legally recognised accounts could not eliminate distortions due to changes in purchasing power, but this was accomplished in short-term operating accounting and unit cost accounting based on current prices. Business profit, owing to the formal manner of its computation, did not reflect the true state of affairs and failed to take account of several material factors.

M. Emile Mangel (*Collège National des Experts Comptables de Belgique*) discussed the ways of computing results during a cycle of below-normal and above-normal production. Inclusion of fixed charges in costs would increase the profit shown for above-normal production. One of the advantages of standard costs was that no adjustment was needed in the values of finished goods.

Each business should choose the method of stock valuation best suited to its own problems. But certain principles should always be observed. There should be caution in avoiding over-valuation: the system chosen should be applied consistently; and the method of stock valuation should be stated for the benefit of third parties.

The accountant would always be incapable of laying bare objective truth: that was an elusive ideal. He should state clearly the bases of his valuations, and any change in these bases should be revealed.

Mr. Mangal suggested that the Congress should draw up a code of clear definitions of the several methods of valuing stocks, work-in-progress, fixed assets and amortisations, and that it should advise accountants to refer to the code and always to draw attention in their reports to any difference in valuation methods between two successive balance sheets.

DISCUSSION

Dr. G. L. Groeneveld (Netherlands), the *rapporteur*, drew a general conclusion from the papers that there was little uniformity in the conception of profit, in spite of the importance of profit determination. Mr. Groeneveld himself was emphatic that the ascertainment of profit should be by the use of current production values. A sound business policy required accounting to be on the basis of replacement values.

The discussion concentrated upon the possibility of equalising profits (income) and the reconciliation of "economic" with "fiscal" profits. The members appeared to be against attempts to equalise profits, attempts which were perhaps natural to the prudent businessman, but which tended to distort true profit and were sometimes open to abuse.

It was felt that the use of secret reserves was dangerous. There was also the problem of their disposal when no longer required.

The general impression was that it was undesirable to reconcile economic profits with fiscal profits and that the accountant should not allow the tax authorities to interfere with his conception of what a true and fair profit should be.

Accountant at Large

Threepenny Post

CHRISTMAS CARDS, WE are assured, will cost no more to send this year than they did last, provided they travel in an open envelope and have no more than five words of conventional greeting; and now as December breaks upon us, and Christmas cards begin to weigh on the conscience, we may thank Santa P.M.G. for this plateau in a region of steep inclines.

The increases in postal rates in October last were certainly a lamentable business, and there have been laments to mark it. Every price increase is a fair object of criticism and a proper subject for questions: we have not yet become so inflation-conditioned as to accept each new turn of the screw (or twist of the spiral?) without protest. But a sense of proportion is still a good thing, and one may wonder whether the wrath and indignation provoked by the changes were altogether rational. In general, the postal increases were perhaps not really as serious as the successive increases in, say, the price of coal or of transport; and by the same token were at least as well justified, though there were anomalies among them.

Postage is a matter which touches us all very intimately. Those of us who are middle-aged or older look back to the halcyon days when a penny was the charge for a letter. We don't quite remember how much coal cost in 1914, but the letter post is clear in our minds, and each further withdrawal from the penny standard produces a nostalgic spasm in the national consciousness. It had lasted so long—from 1840 until 1918; it had been so English an invention, with our postage stamps alone in the world bearing no name of their country of origin; it was so convenient and neat a symbol of the continuity of Victorian business efficiency. But as seems clear—clearer with each increase—it has gone for ever.

Threepence against a penny is no such striking increase, set against the fall in the value of the pound over the same period. At first glance the more interesting (and sadder) part of the change this year was the reduction of the minimum two ounces to one ounce, for one's vague memory is that the weight at least has remained constant since Rowland Hill in 1840. In this as in so many things one's vague memory is at fault. The original penny of 1840 carried only half an ounce; in 1871 it was increased to one ounce; and in the Diamond Jubilee year, 1897, it went, astonishingly, to four ounces, to drop back again in 1915, under the impact of war, to the single ounce. In 1918 the ideal penny was abandoned, but the new rate, 1½d., was for four ounces again. In 1920 the rate became 2d. (do you remember?), and the weight three ounces. In 1922 there was a reduction in rate, to 1½d., and in weight to one ounce, and in 1923, after so many quick changes, the weight went to the two ounces that was to remain basic until this year. The rate stayed at 1½d. until, ironically, the centenary year of the penny post, 1940, when it became 2½d. A graph showing the cost through the years of posting a four ounce packet would obviously be a jerkier line than one would have imagined.

Whatever the rate and the weight the service is a remarkable one, and it is only against the background of a glorious Victorian past that threepence for a letter to the Orkneys could seem expensive. But it is another matter when it is threepence for a letter to the next street; and the latest increases are producing some strange effects. A number of substantial local users—gas, electricity and the rate collectors especially—are finding it profitable to send out their bills, which normally go to almost every house in a comparatively small area, by hand. How many letters can an £8-a-week deliverer deliver in a forty-hour week, working patiently and unhurriedly through street after street in a single borough? Compare his wage with the postage, if the same letters were sent through the post, and you have struck a shrewd blow at the whole principle of "postalisation"—the uniform penny, or threepenny, or sixpenny postage, especially as it is clearly the increased cost of labour that has put the uniform rate up. The service begins to price itself out of the market; and the traffic lost to the Post Office is that very portion of the whole that, by its inherent cheapness, helps to pay for the dearer carriage to the Orkneys. In logic one might expect every defection of a gas Board to make towards a further increase in rates to those who cannot conceivably deliver by hand, just as every such increase would encourage surviving users to seek ways and means of self-help. The wages of the house decorator are such that the householder does it himself. The application of the same principle to the Post Office is easy enough to see.

Magazines are particularly hard hit by the increases; and at least one national publication has been exploring the possibilities of bulk delivery to local centres of magazines which were previously sent by post, and delivery thereafter by part-time labour by hand: the pensioner on his afternoon walk may deliver two dozen copies and be pleased to receive half-a-crown for his pains. *Reductio ad absurdum*, perhaps—but much of consequence can be inferred from a sound *reductio*.

It has been suggested that the postal services are a Victorian luxury which cannot be afforded in a society no longer based on cheap labour: the basic postal charge may one day carry your letter only from Post Office to Post Office, there to await collection from a P.O. Box by the addressee—or to be delivered to

him at his own (additional) charge. That may well be part of the shape of things to come; and when the next price rise comes to make the one ounce for threepence into half an ounce, may we even see a return to the habit of double writing—the sheet covered once, normally, and then covered again with lines at right angles to the first? No one who has not seen an old letter written this way, or experimented himself, will easily believe how legible the final product could be—and the practice was general enough in the days (before 1840) when letter posting was a really expensive matter.

For in the expedients with which we are seeking to meet our latest increases history seems to be beginning to repeat itself. Before 1840 there had been some very steep charges for the carriage of letters. Just after the Reform Bill it cost 1s. 1½d. to send a "single" letter (that is, a single folded sheet) from London to Glasgow. There had been penny posts in certain large urban areas, including London, before that date—and, for that matter, long distance postage had been cheaper at various times in the history of the Post Office: under Cromwell a single letter cost twopence for eighty miles from London, threepence beyond that in England and Wales, and fourpence to Scotland. But pence were worth rather more in the seventeenth century, and we have all heard in our first history lessons of the man who, too poor to pay for a letter home, would send one unstamped, for his mother, just as poor, to refuse on her doorstep: recognition of the handwriting was reassurance at least as to John's continuing existence.

That, we may be thankful, is a part of history that shows no present sign of repetition: letters (apart from Christmas cards) are dearer, but poverty is not what it was, and we have yet to see what the overall effect of the new rates will be upon the total volume of postal traffic. Perhaps, after all, it will be very small: the man who gives up smoking after each rise in the price of cigarettes often comes back as a more confirmed smoker after the first shock is past. But even if as many letters as ever get posted (and there are something like 10,000 million of them in a year), we can see in our postal charges something of our changing way of life in miniature. There were splendours and squalor in the period from 1840 to 1918; we shall not look upon their like again.

Events After the Accounting Date

IN PREPARING ACCOUNTS cognisance should not normally be taken of events occurring after the accounting date. There are, however, two main categories of exceptions to this general rule. First, if the events help to fix the amount properly attributable, in the conditions existing at the accounting date, to any item the amount of which was then uncertain. Second, if the events occur because of legislation—for example, changes in taxation—affecting items in the accounts, or are required by law to be shown in the accounts—for example, appropriations and proposed appropriations of profit.

Events properly excluded from the accounts may nevertheless be of such importance that they need to be disclosed to shareholders in some other way, perhaps before the issue of the annual accounts, perhaps in the directors' report or chairman's statement accompanying the accounts.

These are the recommendations made by the Council of the Institute of Chartered Accountants in England and Wales in the last issue of its *Recommendations on Accounting Principles* (No. XVII).

Instances quoted of the first exception from the general are if developments since the accounting date give guidance in estimating a liability or a contingent liability existing at that date; if the purchase consideration of an asset had still to be ascertained at the accounting date but became settled later; and if events occurring after the accounting date reveal that debts at that date had a realisable value in the ordinary course of the business less than the amount at which they were carried in the books.

The recommendations of the English Institute might well be read in conjunction with those published about three years ago by the American Institute of Certified Public Accountants on auditing procedure in relation to events subsequent to the accounting date (see ACCOUNTANCY, February, 1955, pages 56–58).

Taxation

A Marriage Will Take Place on . . .

IN RECENT YEARS the popular Press has publicised the benefit of marrying on or before April 5. More enlightened writers have indicated that should the wife continue working after marriage, and if surtax is not involved, the nuptials should occur on October 5. Where surtax is payable a later date is preferable. Cowper wrote "Choose not alone a proper mate, But proper time to marry." He must have been prophesying modern taxation!

Under Section 210, Income Tax Act, 1952, the unmarried taxpayer is entitled to a personal relief of £140. But on any taxpayer proving he has a wife living with him or wholly maintained by him in the year of assessment this relief is increased by £100 to £240. Furthermore, if the wife continues working an additional personal relief (A.P.R.) of 7/9ths of her earnings, with a maximum relief of £140, can be claimed. Also, after deducting from her earned income National Insurance (N.I.) contributions paid by her and the appropriate earned income relief (E.I.R.) and additional personal relief (and any other relief available only because she has earned income), the next £360 of her earned income is taxed at the reduced rates (Section 220, Income Tax Act, 1952).

Illustration (1)

Ignoring National Insurance contributions and assuming the husband's earnings in 1956/57 were £963 and his wife's earnings were £450 and she had £30 investment income, the tax computations would be:

				Memo Wife's R.R.R.
		£		£
Husband's earnings		963		
Wife's earnings		450		450
Wife's investment income		30		
		1,443		
Less: E.I.R. 2/9ths of £1,413	£314		£100	
P.R.	240			
A.P.R.	140		140	
		694		240
		£749		£210

	£	s.	d.	
				£60 at 2/3
				150 at 4/9
				£210
Tax borne:				
At reduced rates				
H. *W.*				
£ 60+£ 60 =£120 at 2/3	13	10	0	
150+ 150 = 300 at 4/9	71	5	0	
150 = 150 at 6/9	50	12	6	
Standard rate= 179 at 8/6	76	1	6	
£749	£211	9	0	

But the husband is responsible for the tax on his wife's income only from the date of marriage. How, therefore, should her income be computed in the year of marriage? The basis of assessment is not affected by marriage. Assessments under Schedules A, B, D (Case VI) and E will be on the actual income for the year. Under Schedule D (Case I or II), assuming the wife has been in business for more than three years and continues to carry on that business, she will be assessed on the profits shown by the accounts ending in the preceding fiscal year. Under Schedule D (Case III), where the income arises from fixed interest bearing stocks (e.g. 3½ per cent. War Loan), the assessment is divided on the basis of the date the interest is received. Otherwise each assessment will be apportioned between husband and wife on a time basis. The portion applicable to the period after marriage and the dividends received by her after that date are added to her husband's income. The remainder of each assessment and dividends received before marriage will be treated as her income. Against her income she will receive the reliefs appropriate to a single person.

Illustration (2)

John and Diana wish to marry in 1957/58 on the date which will give the maximum tax relief in the year of marriage. John receives a salary of £990 per annum and will receive a dividend of £20 (gross) from the Mar Co. Ltd. on December 1, 1957. Diana, who is a free-lance model, prepares her accounts annually to September 30. Her adjusted profits for the year ended September 30, 1956, were £810. In 1950 she purchased £2,000 3½ per cent. War Loan stock which she still holds. On December 31, 1957, she will receive £45 (gross) being the year's dividend on her holding of 600 Ordinary shares in Clive & Co. Ltd. Assuming that John and Diana were married on July 5, 1957, their tax positions would be:

	Husband	*Memo Wife's R.R.R.*	*Wife before marriage*
	£	£	£
Husband: Salary ..	990		
Dividend..	20		
Wife: Sch. D. Case II	608	608	202
Sch. D. Case III	35		35
Dividend ..	45		
	1,698	608	237
	£	£	£
Less: E.I.R. 2/ths of £1,598 ..	356	136	2/9ths of £202 45
S.I.R.* ..	–	–	2/9ths of £35 8
P.R.	240	–	140
A.P.R. ..	140	140	
	736	276	193
	£962	£332	£44

* S.I.R.=Small income relief.

Tax borne:

H.	*W.*	£ s. d.		£ s. d.
£60+£60=	£120 at 2/3	13 10 0	£44 at 2/3	4 19 0
150+150=	300 at 4/9	71 5 0	—	
150+122=	272 at 6/9	91 16 0		
	270 at 8/6	114 15 0		
	£962	£291 6 0		

Should a summer honeymoon with all the crowds not appeal, John and Diana might be married on October 5, 1957, and their tax position for 1957/58 would then be:

	Husband	*Memo Wife's R.R.R.*	*Wife before marriage*
	£	£	£
Husband: Salary	990		
Dividend	20		
Wife: Sch. D, Case II	405	405	405
Sch. D, Case III	35		35
Dividend	45		
	1,495	405	440
Less: E.I.R. 2/9ths of £1,395	310	90	2/9ths of £405 90
P.R.	240	–	140
A.P.R.	140	140	–
	690	230	230
	£805	£175	£210

Tax borne:

H.	*W.*	£ s. d.		£ s. d.
£60+£60=	£120 at 2/3	13 10 0	£60 at 2/3	6 15 0
150+115=	265 at 4/9	62 18 9	150 at 4/9	35 12 6
150 =	150 at 6/9	50 12 6		
	270 at 8/6	114 15 0		
	£805	£241 16 3	£210	£42 7 6

Alternatively they may wish to spend their honeymoon winter sporting, so if they are married on January 5, 1958, their tax position becomes:

	Husband	*Memo Wife's R.R.R.*	*Wife before marriage*
	£	£	£
Husband: Salary	990		
Dividend	20		
Wife: Sch. D, Case II	202	202	608
Sch. D, Case III			70
Dividend			45
	1,212	202	723
Less: E.I.R. 2/9ths of £1,192	265	45	2/9ths of £608 136
P.R.	240	–	140
A.P.R.	140	140	–
	645	185	276
	£567	£17	£447

Tax borne:

H.	*W.*	£ s. d.		£ s. d.
£60+£17=	£77 at 2/3	8 13 3	£360 at R.R.	93 0 0
150 =	150 at 4/9	35 12 6	87 at 8/6	36 19 6
150 =	150 at 6/9	50 12 6		
	190 at 8/6	80 15 0		
	£567	£175 13 3	£447	£129 19 6

If John and Diana delayed their marriage until April 5, 1958, their tax positions would be:

	£	£
Husband: Salary		990
Dividend		20
		1,010
Less: E.I.R. 2/9ths of £990	£220	
P.R.	240	
		460
		£550

	£ s. d.
On first £360	93 0 0
190 at 8/6	80 15 0
	£173 15 0

Wife: Sch. D, Case II	£810
Sch. D, Case III	70
Dividends	45
	925
Less: E.I.R. 2/9ths of £810	£180
P.R.	140
	320
	£605

	£ s. d.
On first £360	93 0 0
245 at 8/6	104 2 6
	£197 2 6

Summarising the taxes payable should the marriage take place on one of the above dates, it is obvious that October 5, 1957, is the best date.

	Husband £ s. d.	*Wife* £ s. d.	*Total* £ s. d.
Married on:			
July 5, 1957	291 6 0	4 19 0	296 5 0
October 5, 1957	241 16 3	42 7 6	284 3 9
January 5, 1958	175 13 3	129 19 6	305 12 9
April 5, 1958	173 15 0	197 2 6	370 17 6

Comparing the relative positions at October 5 and April 5, it will be seen that the difference in the total tax payable is caused by the reliefs applicable to the wife's income, viz:

Reliefs lost by delaying marriage until April 5:

		£ s. d.
A.P.R.	£140 at 8/6	59 10 0
R.R.R.	60 at 6/3	18 15 0
	115 at 3/9	21 11 3
		99 16 3
Less: Reliefs gained by delay:		
R.R.R.	£150 at 1/9	13 2 6
£370 17 6—£284 3 9=		£86 13 9

Naturally, the saving of tax must be set against the expense of keeping a wife (or husband)!

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Contents of the COMPANY SECRETARY'S DESK BOOK

Contents continued overleaf

If they so desire John and Diana can claim separate assessments for the year of assessment in which they were married. The claim must be made before July 6 following the end of that fiscal year. If the claim is made, the provisions of Section 358, Income Tax Act, 1952, will apply. These provide *inter alia* that earned income relief is apportioned between the spouses on the basis of their earned incomes; personal, additional personal and reduced rate reliefs are apportioned in proportion to their total incomes (i.e. before deducting annual charges) less earned income relief. The total income tax payable is not affected by claiming separate assessments. Assuming John and Diana married on October 5, 1957, and separate assessments were claimed, the tax position becomes:

Wife, on pre-nuptial income, *no change.*
Husband and wife:

	Total £	*Husband* £	*Wife* £
Earned income	1,395	990	405
Less E.I.R.	310	220	90
	1,085	770	315
Unearned income	100	20	80
	1,185	790	395
Less:			
P.R. £240			
A.P.R. 140			
Apportioned 790: 395	380	253	127
	£805	£537	£268

	£	£ s. d.	£	£ s. d.	£	£ s. d.
R.R.R. as above	535	127 1 3	357	84 14 2	178	42 7 1
S.R.	270	114 15 0	180	76 10 0	90	38 5 0
		£241 16 3		£161 4 2		80 12 1

Adjustment under provisions of Section 358	+12 10 10	—12 10 10
	£173 15 0	£68 1 3

Under the provisions of Section 358, the tax on the reliefs allocated to the wife must not be less than the tax on the minimum reliefs applicable to her earned income if there were no separate assessments. Such reliefs are:

(*a*) the additional personal relief in respect of her earned income;

(*b*) the earned income relief which is given only by reason of the existence of the wife's earned income; and

(*c*) the reduced rate relief arising because of her earned income.

The tax payable in such circumstances is:

		£
Earned income		405
Less: E.I.R.	£90	
A.P.R.	140	
	—	230
		£175

	£ s. d.
£60 at 2/3	6 15 0
115 at 4/9	27 6 3
	34 1 3
Unearned income £80 at 8/6	34 0 0
	£68 1 3

Any excess of the tax payable under the rules relating to separate assessments over £68 1s. 3d. must be paid by the husband. Truly it has been said "in our part of the world where monogamy rules, to marry means to halve one's rights and to double one's duties!"

(*To be concluded.*)

Remittances

Under Cases IV and V of Schedule D, income arising outside the United Kingdom (U.K.) to a person not domiciled in the U.K., or to a British subject not ordinarily resident in the U.K., is assessable on the basis of the remittances to the U.K. in the previous year of assessment; there are special rules for the opening years of remittance and for remittances from new sources and for the closing years of holding a source. The remittance basis also applies under Case V to any income immediately derived by any person from the carrying on by him abroad of any trade, profession or vocation, either solely or in partnership, or from a pension from abroad. A business controlled and managed in the U.K. is chargeable under Case I of Schedule D on the profits arising, not merely on remittances.

The remittances basis also applies to Case III of Schedule E, which covers emoluments in respect of offices or employments held by persons resident in the U.K. (whether ordinarily resident or not) so far as those emoluments are not assessable under Case I or II of Schedule E. Included in Case III of Schedule E are foreign emoluments, i.e. emoluments of a person not domiciled in the U.K. from a non-resident employer (except where the employer is resident in Eire), and emoluments from an employment exercised wholly abroad.

The term "remittance" is used here, as in practice, to include what the Acts refer to as: "the full amount of the actual sums received in the

U.K. . . . or from property imported, or from money or value arising from property not imported, or from money or value so received on credit or on account in respect of any such remittances, property, money or value brought or to be brought into the U.K., without any deduction or abatement other than is allowed . . . in respect of profits or gains charged under Case I of Schedule D." (Section 132 (3), Income Tax Act, 1952). For the purposes of Case III of Schedule E, emoluments are to be treated as received in the U.K. if they are paid, used or enjoyed in or in any manner or form transmitted to or brought to the U.K. (Paragraph 8, 2nd Schedule, Finance Act, 1936).

There is included in remittances any foreign income that is applied outside the U.K., by a person ordinarily resident in the U.K., towards the satisfaction of a loan raised in the U.K. or of a loan raised abroad where the money was received in or brought to the U.K. or of a debt incurred to repay such a loan (Section 24, Finance Act, 1953). This provision was passed to negative avoidance of tax by such expedients as raising an overdraft in the U.K. and transferring it abroad to be paid off. Other constructive remittances are included, e.g., where the foreign income is invested abroad and the investments are brought to the U.K. and sold (*Scottish Widows' Fund* v. *Farmer*, 1909, 5 T.C. 502), or are sold abroad and the proceeds are brought here (*Patrick* v. *Lloyd*, 1944, 26 T.C. 284). A clearance or entry in accounts will not in itself be a remittance (*Gresham Life Assurance Society* v. *Bishop*, 1902, 4 T.C. 464).

If it can be shown that remittances from abroad are of capital, they cannot be assessed (*Kneen* v. *Martin*, 1935, 19 T.C. 45), even if through a mistake by the banker abroad the money was actually sent out of an account into which income was paid (*Roxburghe's Exors.* v. *C.I.R.*, 1936, 20 T.C. 711). Otherwise it appears that the Revenue can treat all remittances as being remittances of income to the extent that there is income still available which has accumulated since the taxpayer became resident in the U.K. The Revenue cannot assess remittances from investments representing income already taxed here (*Walsh* v. *Randall*, 1940, 23 T.C. 55). If it is not possible to distinguish between the sources (capital or income) of remittances, the Commissioners are entitled to treat them as income (to the extent mentioned above) (*Scottish Provident Institution* v. *Allan*, 1903, 4 T.C. 591). Assessments cannot be raised on remittances from a source that ceased prior to the year of remittance (*National Provident Institution* v. *Brown*, 1921, 8 T.C. 80; *Joffe* v. *Thain*, 1955, 36 T.C. 199).

If the remittances include income which it was not possible to remit when it arose, through causes beyond the control of the taxpayer concerned, e.g. foreign currency being frozen by government decree abroad, the taxpayer may have it assessed as if it had been remitted when it arose (Section 12, Finance Act, 1956). Pensions granted retrospectively will be assessed as income of the year to which they relate, provided the pension is remitted as soon as it is paid or would be so remitted but for causes beyond the taxpayer's control (*ibid.*).

Under Cases IV and V, where the remittance basis is applicable, if remittances have been made to the U.K. out of a continuing source in any tax year two or more years before residence started, the preceding year basis of assessment applies immediately. Where remittances were first made in the year of assessment in which the taxpayer became resident or in the year before or in a later year, the assessment will be made as if a new source started with the first remittance. In the year of becoming resident, it is understood that by concession the assessment is not to exceed that part of a full year's income from the source represented by the proportion borne to the full year of assessment by the time since the taxpayer became resident in that year. Income is treated as first arising from a new source in the year the first remittances were made, and these are then assessed on an "actual" basis for the first year of remittance, and for the second if the remittances were made after April 6 in the first year. The first assessment to be made on a preceding year basis can be reduced to the actual remittances of the year of assessment where relevant. The first such assessment is usually the third year, but will be the second if remittances were first made on April 6. The claim for reduction must be made within twelve months after the end of the year of assessment for which it is made.

If the source ceases, the final assessment will be on the actual remittances in the year of assessment in which it ceases and the Revenue may increase the assessment of the penultimate year of assessment to the actual remittances of that year, where relevant. The taxpayer has no right of reduction if the remittances are less than the assessment based on the preceding year's profits.

The taxpayer has the right to treat as the last year of assessment of a discontinued source the last year in which remittances were made. If from a source which is still owned there have been no remittances for six years but there were remittances in the year before such six years, he can claim that there was cessation in the last mentioned year.

Under Schedule E, the assessment is based on the actual remittances of the year of assessment, except to the extent that they are from emoluments charged under Cases I or II of Schedule E or charged for a year earlier than 1956/57.

For double taxation relief purposes, remittances have to be grossed by reference to the oversea rate of tax appropriate thereto.

For the purpose of U.K. assessments the income from overseas must be expressed in its sterling equivalent. For conversion purposes, the Revenue issues tables of mean rates for years of assessment. Remittances naturally do not need special conversion: their sterling amount is known.

Under the agreement with the Republic of Eire, the rules of Cases IV and V of Schedule D are modified. Income arising in the Republic to persons resident in the U.K. is assessed on the same basis as if it arose here. The same applies to income from employments.

Taxation Notes

Loans to Pay Estate Duty

Very often the problem arises whether, in order to meet estate duty, to borrow money from a company which the deceased controlled or in which he had a substantial interest. If the company is under the control of five or fewer persons, and is neither a subsidiary company of a company outside the surtax net nor a company in which the public have a substantial interest, the position regarding possible surtax directions must be considered. Clearances ought to be obtained under Section 252, Income Tax Act, 1952, before the loan is made. If distributions have been inadequate, it may be necessary to negotiate the declaration of retrospective dividends before clearances can be obtained. As a result of paying such dividends there will be a liability to additional profits tax. Moreover, the agreement for the declaration of retrospective dividends will involve their being assessed to surtax as if received by the deceased in the years to which they are related. The cost may be high.

So far as profits tax is concerned, it is understood that there is a concession whereby if the residue of the estate, apart from the shares in the company itself, is insufficient for the payment of estate duty, a loan for the purpose of paying the duty need not be included in gross relevant distributions, even if the personal representative is a member of the company and a beneficiary of the estate. If, however, the estate were not first exhausted in payment of part of the duty, whether such a loan had or had not to be included in gross relevant distributions would depend on the precise facts.

Such a loan presents another problem—its repayment, which can usually come only out of savings, a slow and usually far too lengthy process, or out of the sale of shares in the company. It is therefore wise to explore other avenues, such as a sale of shares or debentures to the Estate Duties Investment Trust Ltd. The cost is relatively high but the scheme will be a sound one.

Gifts *inter vivos*—I. What is a Gift?

If the donee is not a relative (as explained below) of the deceased there must be some element of bounty before a transaction can be regarded as a gift (*Re Fitzwilliam's Agreement: Peacock* v. *C.I.R.* (1950) Ch. 448); that is, there must be the intention or at least a consciousness of conferring a financial benefit on the donee. A transfer for full consideration in money or money's worth is not a gift within the meaning of the taxing Acts (*ibid.*). It appears therefore that if the transfer is not an obvious gift, the onus is on the Revenue to prove an element of bounty but on the donee to prove consideration. Dymond's *Death Duties* (12th edition) gives the opinion that if property is not readily marketable, a partial gift should not readily be presumed unless the consideration was "palpably inadequate" or there is evidence that a bounty was in fact intended. If there is partial consideration, there may be deducted from the value of the property in question a proportion of the value that the consideration bore to the value at the date of the gift.

—II. Gifts to Relatives

"Relative" for this purpose includes (*a*) the surviving spouse; (*b*) the father, mother, children, uncles and aunts of the deceased; and (*c*) any issue of any of the aforementioned and the other party to a marriage. "Children" and "issue" include illegitimate children and adopted children (Section 44, Finance Act, 1940).

A disposition made by the deceased (or by a company controlled by him) in favour of such a relative otherwise than for full consideration is regarded as a gift to the extent of the bounty in it; for this purpose an annuity or life interest in favour of the donor is not regarded as consideration, whether the annuity or interest is to cease on his death or on that of some other person (*ibid.* Section 46, Finance Act, 1950).

A deduction is allowed, however, of the net amount of benefit received by the deceased from the transaction (Section 40, Finance Act, 1944). The benefit is the total amount actually paid up to the date of death on account of the annuity or life interest, less such an amount as the Commissioners regard as a reasonable return on the property given (usually the actual yield, unless that is unusually high or low); gross amounts are taken in both cases.

A disposition in a fiduciary capacity imposed on the deceased otherwise than by a disposition made by him and in that capacity only is outside the "relatives" provisions.

"Disposition" includes any trust, covenant, agreement or arrangement, whether made by a single operation or associated operations, and also the extinguishing or any alteration of rights affecting shares or debentures of a company (Section 59, Finance Act, 1940). It includes, too, a payment of money (Section 72 (2), Finance Act, 1952).

The *Taxation* Conference — Tax Planning

In a practical paper, given at the Torquay Conference of our contemporary *Taxation* (briefly noted in our November issue, page 460), Mr. A. E. Aylmer, B.SC., gave his hearers plenty of food for thought on the subject of taxation planning in commercial undertakings. He said that the object of most of the planning that goes on in the office of a tax adviser of a commercial business is to see that profits are assessed to tax once only and that all allowable deductions for expenditure and losses are properly made.

The profits could readily be taxed more than once if the new business provisions of Case I or Case V of Schedule D operate, and the aim had to be to get the profits of the first and often the second accounting periods

as low as possible. If there was an acquisition of another company, it might be better to buy the shares and not just the business. If the "new source" provisions operated under Case V, it would be wise to ensure that a dividend was not declared in both the second and the third years of assessment. A profit pooling arrangement was often useful if there were past losses to be absorbed which could not be relieved by subvention payments.

Mr. Aylmer dealt also with ethical standards and on this aspect a good deal of discussion took place amongst his hearers after the session. He appeared to be against artificial arrangements to mitigate the hardship of tax and mentioned, without coming to any conclusion, the formation of Bermudan subsidiaries to operate ships.

—Mock Appeals

The mock appeals to General Commissioners were thoroughly enjoyed by the audience and the chairman, Sir Harold Howitt, F.C.A., contributed largely to their success by his lively interruptions. There were four short appeals connected largely with requests for adjournments in order to allow accounts to be prepared. One argument ranged round the admissibility of bad debts. The main appeal was on whether a sum of £1,800 received from a petroleum company by a garage was or was not a trading receipt, and two other smaller points. The Commissioners held that the £1,800 was a capital receipt and many of those present were sorry that for lack of time no reason was given for this conclusion.

—Recent Legislation

Mr. John E. Talbot, F.C.A., gave an address on recent legislation. As usual with the speaker, the paper was full of detail and contained many useful observations on the new rules for Schedule E introduced by the Finance Act, 1956, and on Overseas Trade Corporations introduced by the Finance Act, 1957. He discussed the changes in personal allowances for income tax and surtax purposes. He also dealt with the most important estate duty changes which have taken place in the last two Finance Acts. The self-employed pension provisions were also reviewed.

—Double Taxation

In an address on double taxation, Mr. Percy F. Hughes, A.S.A.A., F.C.I.S., reviewed the history of the subject and then went on to give an illuminating outline of the law regarding residence. He then mentioned the position of permanent establishments and considered unilateral relief. There followed an explanation of the present position regarding unremittable profits, of the general principles of the agreements for preventing double taxation, and of the net United Kingdom rate affecting dividends. Mr. Hughes concluded with an outline of the method of computation, including the special arrangements with Eire and the treatment of dividends received through paying agents.

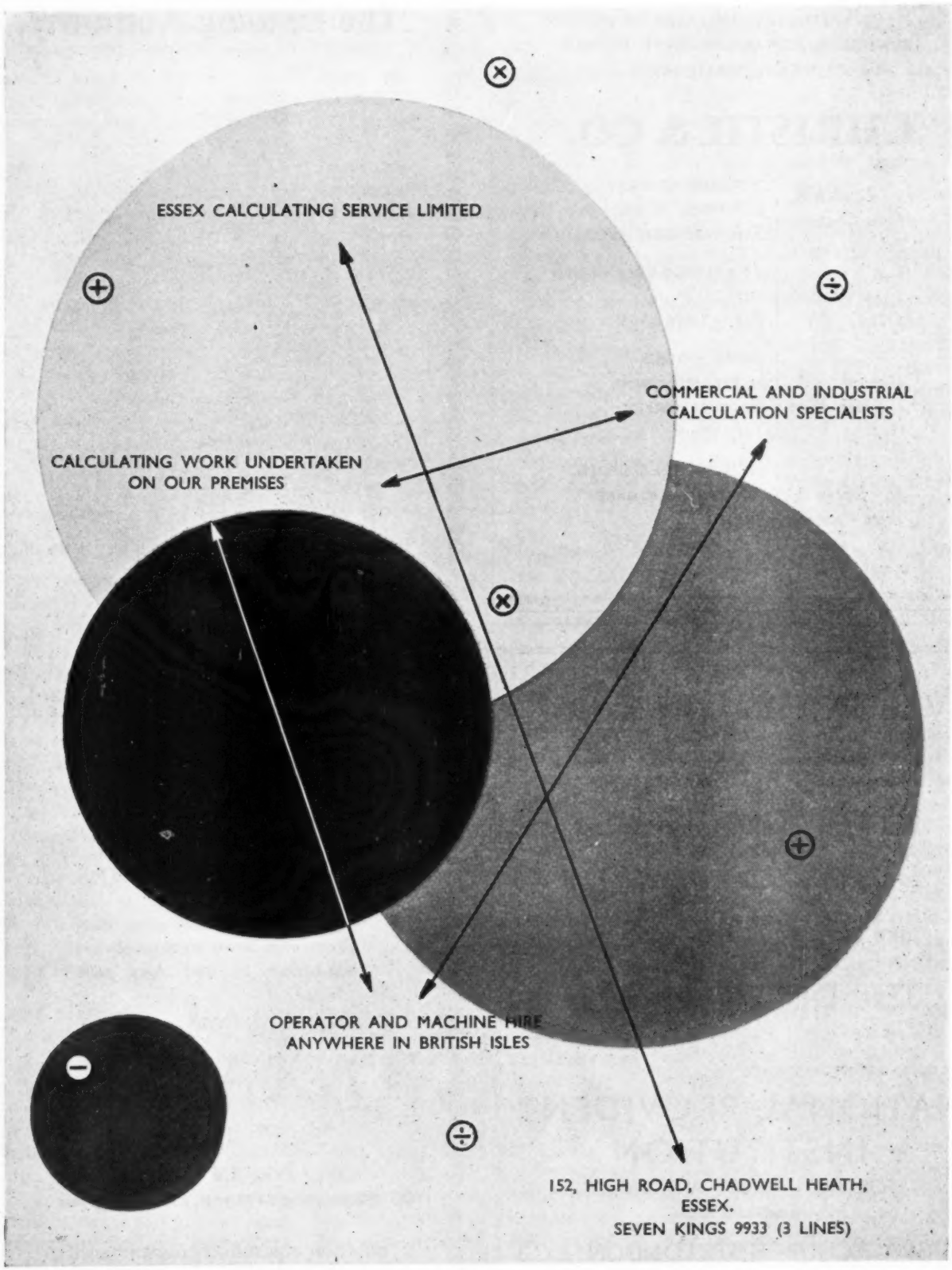
—Thirty Years at the Tax Bar

Mr. L. C. Graham-Dixon, Q.C., in an address on thirty years at the tax Bar, pointed out the constant process of stiffening the income tax code and patching holes in every direction. He mentioned particularly the taxation of excess rents, the transfer of farm profits to Schedule D, the introduction of balancing charges and allowances and the amendment that had to be made to prevent loopholes for balancing charges. He went on with the rules for valuing stock on the discontinuance of a business and the right of the Revenue to disregard the actual prices where sales take place between controlled parties; the alteration in Schedule E rules and the very involved legislation introduced in the Finance Acts, 1936 and 1938, to minimise avoidance of surtax. He mentioned the decision of the House of Lords in *Purchase* v. *Stainer's Executors* concerning the professional earnings of the late Leslie Howard, which became due after his death, to the effect that the income flowed from the profession and the source had ceased when he died. The Revenue could not assess earnings received after death as being annual payments. The executors were collecting professional debts and held no source of income at all. In the thirty years he had found certain features to be constant throughout, viz. the distinction between capital and income and the importance of there being a source; the excellence of the Special Commissioners as an appeal body; and Section 21 of the Finance Act, 1922, now re-enacted in Section 245, Income Tax Act, 1952.

—Computing Trade Profits

The final paper was on computation of trade profits by Mr. R. B. Pollott, M.A., F.C.A. The paper was devoted to the valuation of stock-in-trade and the treatment of bad debts and in the course of it Mr. Pollott described the method of valuation of stock-in-trade, culminating in the case of *C.I.R.* v. *Cock, Russell & Co. Ltd.* His hearers were interested in his comments on the meaning of market value. Most businesses buy in one market and sell in another. Which of the two market values was appropriate for stock valuation? He said that the Revenue attitude was quite clear. It would admit a provision against an expected loss but not a provision against a diminution in a previous estimate of future profit, i.e. it expected market value to be realisable value and not replacement cost. The problem was not likely to become acute unless there was a general fall in price levels. It was noteworthy that the Royal Commission recommended that replacement value should be an alternative.

Even in applying the cost or market value formula, problems could arise on what was meant by cost, e.g. if secondhand motor cars were bought and labour and materials were used for overhauling and repairing the cars. If stock was resold in the same condition as that in which it was bought, it was usually easy to identify the particular items on hand at the end of the accounting period. Mr. Pollott then went on to deal with the alternative bases of valuation (first in—first out, and so on) pointing out that the Royal Commission proposed that any acceptable convention such as average cost, standard cost, or adjusted selling price, or last in—first out should be permitted so long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as it was adopted constantly. In putting a value on partly manufactured goods and finished stocks, it was usually reasonable to make some addition for overheads but it was not possible to lay down any general rule about what overheads should be included. If goods were processed in various departments, it was necessary to make adjustments so as to exclude profits on goods that were still in the ownership of the business.

Residence

The Income Tax Acts give little positive guidance on the meaning of residence. Yet residence has a great influence on tax assessments. Guidance comes from decisions of the courts.

A visitor to the United Kingdom (U.K.) is not to be charged to tax under Schedule D as a person residing in the U.K. in respect of profits or gains received in respect of securities or possessions out of the U.K. if:

(*a*) he is in the U.K. for some temporary purpose only and not with any view or intent of establishing his residence therein; and

(*b*) he has not actually resided in the U.K. for an aggregate period equal to six months in any year of assessment. Should he reside for an aggregate period of six months or more, he is chargeable as resident for that year (Section 375, Income Tax Act, 1952 (Schedule D); Paragraph 3, 2nd Schedule, Finance Act, 1956 (Schedule E)).

A British subject or citizen of Eire whose ordinary residence has been in the U.K. is to be assessed and charged to U.K. tax notwithstanding that at the time the assessment or charge is made he may have left the U.K., if he has left it only for the purpose of occasional residence abroad, i.e. he is charged as still resident in the U.K. (Section 368, Income Tax Act, 1952).

Residence seems to depend on physical presence plus intention; ordinary residence requires a habit of life. The courts regard questions relating to residence or ordinary residence as questions of degree and therefore of fact on which they will not upset the decision of the Appeal Commissioners unless the Commissioners have not regarded the evidence properly. All appeals as to ordinary residence must go to the Special Commissioners. Appeals as to residence may go to either the Special or the General Commissioners, except appeals regarding the exemption from U.K. tax of dividends, etc., on securities or possessions outside the U.K. which are owned by non-residents; these appeals must be made to the Special Commissioners (Sections 120 and 190, Income Tax Act, 1952).

For tax purposes, the term "ordinarily resident" has in some respects a narrower meaning than the term "resident," though in others it seems wider. For example, a person whose permanent home is abroad, but who keeps a house in the U.K. ready for his occupation on visits, has been held to be ordinarily resident here, and will be assessed as resident in any year in which he sets foot in the U.K. (*Peel* v. *C.I.R.*, 1927, 13 T.C. 443). This ruling no longer applies if he works full time in a trade, profession or vocation no part of which is carried on in the U.K. or if he works full time in an office or employment all the duties of which are performed outside the U.K.; in either event the retention of a house here is ignored (Section 11, Finance Act, 1956).

To be ordinarily resident seems to imply some habit of life and a visitor who does not stay for six months in any year is regarded as becoming resident if he visits the U.K. year after year (so that his visits become in effect part of his habit of life) and the annual periods are for a substantial period or periods of time. The Inland Revenue normally regard an average annual period or periods amounting to three months as "substantial" and the visits as having become "habitual" after four years. If, however, the visitor's arrangements indicated from the start that regular visits for substantial periods were to be made, he would be regarded as resident in and from the first year. Ordinary residence means residence in the course of the customary mode of life and is contrasted with special or occasional or casual residence. A person may become resident without becoming ordinarily resident, as in the case of the casual visitor. Repetition may then make him ordinarily resident. Physical presence in any one year may not be necessary if the absence is the exception to the ordinary habit of life.

A company is resident in the country where the central management and control actually abides and a foreign company can be resident in the U.K. or a U.K. company resident outside the U.K. Double taxation agreements usually contain provisions on the point. As an example, the agreement with Eire deems a company to be resident only in the country in which its business is managed and controlled. Most other agreements provide that a company is to be regarded as resident in the U.K. if its business is managed and controlled in the U.K.

Like an individual, a company can be resident in two countries at once, as when management and control are divided. It seems that the word "ordinarily" adds nothing to the word "residence" when applied to a company.

Deductions in Arriving at Total Income

It is important to notice the difference in treatment of annual payments for standard rate income tax and for surtax.

For income tax, where a person is required to be assessed and charged to income tax on any income out of which he makes any payment in respect of:

(*a*) any annual interest, annuity or other annual sum, or

(*b*) any royalty or other sum in respect of the user of a patent, or

(*c*) any other payment subject to deduction of tax as if it were a sum paid in respect of the user of a patent,

he is to be charged at the standard rate on so much of his income as is equal to such payment and this amount of his income may be deducted in computing his total income (Section 2 (2), Income Tax Act, 1952).

He may then deduct income tax from the annual payment and keep it (Section 169, Income Tax Act,

1952). Rents under long leases and annual payments in respect of land, e.g. annuity, rent charge, fee farm rent, feu duty, stipend, etc., are included for the above purposes (Section 177, Income Tax Act, 1952). The total income is the income less the annual payments, i.e. it is the amount on which income tax is borne by the taxpayer whose total income is being computed.

Should the annual payments exceed the income, the excess must still have tax deducted from it at source and the tax on that excess must be paid over to the Revenue (Section 170, Income Tax Act, 1952). There will then be no total income, since all tax paid is recouped by deduction at source.

For surtax, the total income is as stated in the penultimate paragraph above, subject to certain other deductions which apply for surtax only.

In calculating the income tax payable by individuals certain deductions are made for earned income relief, various personal reliefs and life assurance relief. For surtax, similar deductions are made for 1956/57 onwards but excluding an amount equal to the single personal allowance, earned income relief and life assurance relief.

That brings us to the point as to the annual payments from which tax is deductible and which are therefore themselves deductible in calculating total income but have to be kept in charge to standard rate tax. We find in Section 169 of the Income Tax Act, 1952, that if an annual payment is payable wholly out of profits or gains charged to tax, no assessment is to be made on the person entitled to receive the payment and the payer is liable to keep the amount in charge, but can deduct the tax from it on payment. And by Section 170 of the same Act, if the payment is made out of capital, the machinery is similar but the payer must account to the Revenue for the tax he deducts.

It is admitted that if the annual payment is made under a contract or order of Court to which the rule of law applicable is outside the United Kingdom (U.K.), Section 169 has no application and the payer cannot deduct tax; that is, so long as the payee is not resident in the U.K. Should the payee come to this country, however, it seems that the payer could deduct tax.

Only the annual payments from which income tax is deductible can be deducted in arriving at total income for surtax purposes, and these are the annual payments that are to be treated as income of the payee, not of the payer. The same is true in calculating total income when used in old age relief calculations, in arriving at the maximum premiums allowable for life assurance relief, etc. (See *Earl Howe* v. *C.I.R.*, 1919, 7 T.C. 289; *Rossdale* v. *Fryer*, 1922, 2 K.B. 303). Thus alimony payable by a resident in the U.K., under the order of a foreign court, to his former wife not so resident is not an annual payment from which tax is deductible and it cannot be deducted in arriving at total income (*Bingham* v. *C.I.R.*, 1955, 36 T.C. 254).

If the order of the court were made in the U.K., the payer could deduct tax and therefore the payments would reduce his total income, since the income would then arise in the U.K. and be income of the payee. Should the payer become resident abroad and have no income liable to U.K. tax, he is subject to Section 170 if the payee is resident in the U.K. and the payee cannot be assessed, even if the payer does not account for the tax (*Stokes* v. *Bennett*, 1953, 34 T.C. 337, where the order was for "free of tax" alimony). Collection of the tax was a matter entirely between the Crown and the payer.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

Income Tax

Profession — Author — Royalty payments—Royalties paid after death—Whether receipts of profession—Whether "annual payments"—Income Tax Act, 1952, Schedule D, Cases II and III.

Where professional or business activities result either mainly or partially in the bringing into existence of income-producing assets, the consequential taxation problems arising are apt to prove difficult or even impossible of satisfactory solution. In **Carson v. Cheyney's Executor** (Ch. June 5, 1957, T.R. 125), the executor of the late Peter Cheyney had appealed against assessments made upon him under Schedule D in respect of large sums received by him in the income tax years 1951/52 and 1952/53, representing periodical payments arising out of contracts made by the deceased during his lifetime in the course of carrying on his profession of author. The General Commissioners had decided in favour of the executor, and the case coming before Harman, J., the latter said that the short point was whether the receipts in question were to be regarded as remuneration for personal services or professional activities of the deceased received after the cessation of his professional activity or as moneys arising from the exploitation of the author's property, namely his copyrights. In the Commissioner's "case," four contracts were set out as representative. Three of them dealt with works to be written and in which no copyright or property could exist when the agreement was made, whilst the fourth dealt with the exploitations in the French language of an existing work, itself the subject of copyright, although the translation to be made would have copyright of its own. Harman, J., whilst saying that he felt much more doubt about the fourth contract than about the other three, finally upheld the decision of the Commissioners in favour of the taxpayer upon all four.

For the executor, it was contended that the case was governed by the House of Lords' decision in *Purchase v. Stainer's Exors.* (1952, A.C. 280; 29 A.T.C. 741; 32 T.C. 367)—the "Leslie Howard" case. There, the issue arose

out of the receipt by the executors of a film actor, known as Leslie Howard, of large sums of money arising from the deceased's professional activities. In the agreements in that case the actor had agreed to perform in and to produce certain films in consideration of remuneration partly dependent upon the success of the films and the profits derived from their exploitation; and the House of Lords had held that the case was one of agreements for personal service, the written contracts being merely machinery. Payments after death were held to be merely residual receipts arising out of professional services rendered during the actor's lifetime. Lords Simonds, L.C., and Asquith, who delivered the only speeches in the case, the other Lords concurring, both expressed approval of the statement of principle laid down by Rowlatt, J., in *Bennett v. Ogston* (1930, 9 A.T.C. 182; 15 T.C. 374):

> When a trader or a follower of a profession or vocation dies or goes out of business . . . and there remain to be collected sums owing for goods supplied during the existence of the business or for services rendered by the professional man during the course of his life or his business, there is no question of assessing those receipts to income tax, they are the receipts of the business while it lasted, they are arrears of that business, they represent money which was earned during the life of the business and are taken to be covered by the assessment made during the life of the business, whether that assessment was made on the basis of bookings or on the basis of receipts.

The argument in the present case was, as Harman, J., said, that the same subject-matter, the payments under the contracts, taxable under Case II had the author lived, could not change their nature and be taxable under Case III because he was dead. As against this, the Crown distinguished the *Stainer* case and also relied on *Bennett v. Ogston*, where a deceased moneylender had outstanding promissory notes on which the debtors continued to pay interest and it had been held that his executors were liable under Case III, although in his lifetime the interest on such notes had been taxed under Case I as trade profits. Royalties paid after death arising as the result of professional activity were, it was contended for the Crown, in like case. In *Stainer's* case, Lord Simonds, L.C., whilst approving the principle laid down by Rowlatt, J., as set out above said:

> I have some doubt—it is not necessary to decide it—whether the learned judge correctly applied the principle in the case before him.

Harman, J., said that, despite the hesitation expressed by Lord Simonds, the *Bennett v. Ogston* case seemed to show that interest of money might be taxed under Case III after the cessation of trading although taxed under Case I whilst the trade was in progress. The conclusion he came to, although the payments under the fourth contract were not in respect of services to be rendered but were under a contract to receive payments under a licence, was that all the contracts should be regarded as part of the author's professional activities and that

> if the Crown did not take these potential receipts into account whilst the professional activities were continuing, it must be taken to have exacted all the tax exigible and cannot by appealing to another Case exact further tax for the same activity.

In other words, the Crown was found to be in an impossible position.

Reverting to Lord Simonds' observation on the *Bennett v. Ogston* decision, the question arises how such an able judge as Rowlatt, J., could have laid down a principle and then given a decision apparently incompatible with it. The answer would seem to be given by the facts of the case. Case III distinguishes between "interest" and "discount"; and the reader will find an interesting examination of the relation of these terms to each other in *Torrens v. C.I.R.* (1933, 18 T.C. 262). The promissory notes given to a moneylender by a borrower are the subject of discount, not interest, and in the *Bennett v. Ogston* case the only interest element, about which there was no dispute between the parties, was where instalments of the promissory notes had fallen into arrear. The discount on a promissory note arises when the note is "made" and discounted; but in the case of a moneylender the regarding of it as immediate trade income would involve immense difficulty in connection with estimates for bad and doubtful debts. So in *Bennett's* case, as in other such cases, what would appear to be the strict legal position had been disregarded and, instead of the whole of the discount upon a promissory note being brought in at the time of discounting, the amounts credited as receipts consisted only of the repayment instalments due and paid in the accounts period. In other words, in *Bennett v. Ogston* the taxpayer had had the benefit of a practical but not strictly legal method of making his returns and, in the circumstances, the Rowlatt decision was appropriate to the circumstances although irreconcilable with the general principle which he had enunciated.

Income Tax

Trade — Building company — Company chiefly building houses and schools under contract with local authority but also doing speculative building for private persons—Subsequent building in pre-war years of houses to let and also for prompt sale—Houses unsold claimed to have been retained as investments—After war, all houses sold where vacant possession obtained—Whether resultant profits taxable—Land required by company on which to erect garage for trade purposes —Land with two houses thereon purchased in 1927—Houses let at time of purchase—Sale of houses with vacant possession in 1950—Whether surplus on sale assessable.

James Hobson and Sons Ltd. v. Newall (Ch. July 3, 1957, T.R. 201) was a case with facts sufficiently commonplace to make it of importance to many private companies engaged in the building of houses on a large scale. The appellant company had been incorporated in 1919 and had begun as a timber merchant. In the first ten years of its life it had not done much building, although building was amongst its objects. Since 1927, it had, however, built 7,000 houses and some schools, principally under contract, for Nottingham Corporation. To some extent it had also done speculative building. In order to keep their organisations in being, large-scale builders, like other manufacturers, are apt to manufacture for stock when business is slack and to build houses for letting pending opportunities for sale; and the appellant company had done this. As a result, it owned a number of houses which it had made no attempt to sell. Other houses owned by it represented what is known as "builders' remainders," houses remaining unsold when all others erected on a building estate have been disposed of. At the outbreak of the last war the company had houses in both categories. After its close, as a consequence of the Rent Restriction Acts, every house where vacant possession was obtained was at once sold and not relet. The main issue in the case was whether the profits which arose from the sale of houses built to let were assessable as trade profits or arose, as contended for the company, from the realisation of capital investments. Liability in respect of profits

arising from the sale of "builders' remainders" was not disputed on appeal.

A second issue in the case was in respect of houses in a different category. In 1927, the company wanted land on which to build a garage for trade purposes, but the only land available had two houses on it let to tenants, and it could not get hold of the land for the garage without buying the houses as well. Twenty years afterwards, when they had become vacant, the two houses were sold.

The General Commissioners had held that the profits arising from the sales in all three categories were assessable, and Harman, J., affirmed their decision. Upon the main issue, he said that, looking at the company's memorandum, it could carry on the trade of a builder in two ways, one by acquiring land and building upon it houses for sale and another by acquiring land and building houses to let. At a later stage in his judgment he said that its memorandum would entitle the company to buy houses as an investment but he did not think it would entitle it to build houses as an investment. Houses built to let in 1928 and 1929 were, he said, no less built and let as part of the company's trade than those built for sale. Builders were not bound to build houses for sale, and those built for letting were no less the company's stock-in-trade because it was not intended to turn them to account by selling them. Upon the second issue where, in order to get land for a garage, the company had had to buy two houses, he said it was not suggested that they were bought as an investment but that, in the circumstances, they were not part of the trading stock. Again referring to the company's memorandum, he said that land might be purchased "for business purposes." The houses, unlike the garage, had not become part of the fixed assets of the company used in its trade; and he held that they were no less part of the company's stock-in-trade than the other houses dealt with by him.

Respectful doubt may be expressed regarding the decision in regard to the two houses. The expression "for business purposes" would seem to be quite neutral as between capital and revenue account expenditure. Bearing in mind the circumstances of their acquisition, it is difficult to see how they were other than assets of a capital nature, and, if they had been sold at a loss, it is inconceivable that the Revenue would not have contended that it was a loss of capital arising out of the acquisition of the land for the garage. It is, moreover, as a matter of principle, not easy to reconcile the decision in the present case with that of Donovan, J., in *Harvey* v. *Caulcott* (1952, 23 T.C. 159), regarding the house bought for Harvey's foreman.

Surtax

Settlement—Deed of covenant—Application for charitable purposes—Power to revoke after seven years—Release of power to revoke—Whether settlement to be regarded as made at date of original deed—Whether to be regarded as made at date of deed of release and after April 10, 1946—Finance Act, 1938, Section 38—Finance Act, 1946, Section 28.

Where an unsatisfactory principle has been established by a higher Court a judicial decision by an inferior Court, apparently inconsistent with it, is sometimes to be welcomed in so far as it affords a possibility of review by the House of Lords. Such a case was **Scott *v.* C.I.R.** (Ch. June 28, 1957, T.R. 199). The taxpayer had entered into a deed of covenant on July 31, 1941, whereby he undertook to pay to trustees during his life a monthly sum, which was to be applied principally for charitable purposes. There was power to revoke the settlement after August 1, 1948. On January 26, 1948, the covenantor by deed released his power of revocation. In 1946, the saving of surtax by means of covenants in favour of charities was stopped by Section 28 of the Finance Act of that year. Thenceforward, the income was to be deemed the income of the settlor for surtax purposes; but the new provisions were to apply only to settlements made on or after April 10, 1946. In the present case the Special Commissioners had upheld the Crown's contention, based on the two decisions undermentioned, that the settlement had to be regarded as made upon January 26, 1948, when the deed of release had been executed. Harman, J., reversed this decision in a judgment not lacking in emphasis. He said, *inter verbos*, that the Special Commissioners had in some way or other made a compound settlement out of the deed of covenant and the release of the power to revoke, although the payments had been made throughout under the 1941 contract and no other. It was, he said, simply not true that the income arose under a settlement made on or after April 10, 1946, and he could not see why it could be said to be true in law.

The Special Commissioners' decision in favour of the Revenue was clearly consequent upon the reversal by Upjohn, J., of their decision in *C.I.R.* v. *Nicolson and Bartlett* (1953, 34 T.C. 354). Granted the existence of the general principle found by Upjohn, J., to have been established by the Court of Appeal in *Taylor* v. *C.I.R.* (1945/6, 27 T.C. 93), it is difficult to see how the Commissioners could have decided otherwise than as they did. *Taylor's* case was one where there was an astonishing degree of muddle in the settlements under review, and the matter is best studied primarily in the Special Commissioners' Case in *Nicolson and Bartlett*. There, on March 27, 1943, the settlor had executed a declaration of trust in respect of her income from certain property and funds with the intention of setting up a charitable trust, and had entered into a life covenant which could, however, be revoked after the expiry of seven years. Upon February 28, 1950, shortly before the expiry of the seven year period, the settlor had executed a supplemental deed whereby the power to revoke was not to be exercised until March 27, 1953—that is, the seven years period was extended to ten years. The respondents as trustees had claimed and been refused repayment in respect of the monthly sum of £350 paid on March 31, 1950, the first payment made in the additional period. For the Revenue, it had been contended that the deed of release of February 28, 1950, constituted together with the deed of settlement a new or notional settlement within Section 41 (4) (*b*) of the Finance Act, 1938, and that the new settlement, being revocable at any time after the expiry of three years, was outside of the exemption conferred by the proviso to Section 38 (1) of the Finance Act, 1938. *Taylor* v. *C.I.R.* was quoted in support and, in particular, the judgment of Cohen, L.J., who had given the leading judgment in a unanimous Court of Appeal. The Special Commissioners had rejected the Revenue contention, holding that the *Taylor* decision was based on special facts; but Upjohn, J., had reversed their decision, saying that they appeared wholly to have misapprehended the effect of the judgment of the Court of Appeal in *Taylor*.

> In my judgment what was said by Cohen, L.J., is quite plain. There must be found in the settlement, whether it be constituted in one document or in two or more documents so as to form a compound settlement, three things. There must be, first, an obligation to pay; secondly, a power to revoke; and thirdly, a suspension of that power to revoke for six years from the first payment. . . .

Cohen, L.J., had said in the course of his judgment:

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> It is plain that the power to revoke and the obligation to pay must be contained in the same settlement and the use of the present tense, in my opinion, involves that the restriction on the exercise of the power to revoke should also be present in the same settlement.

The extraordinary possibilities arising from this interpretation were clearly indicated in the third paragraph of the Special Commissioners' Case in *Nicolson and Bartlett*. For example, they said:

> When in the first year a deed of settlement is entered into in which the power of revocation is restricted for six years and in the third year a deed of release is executed extending the restriction on the power of revocation for a further two years, in such a case the original deed of settlement falls within the proviso to the said Section 38 (1) . . . and relief would be granted for the first three years, but, on the execution of the deed of release, extending the restriction on the power of revocation, the original deed would be rendered inoperative . . .

In other words, the decision of the settlor to extend his benefaction to the charity would have the effect of depriving it of all tax relief as from the date of the supplementary deed! The Court of Appeal in the *Taylor* case consisted of the late Lord Greene, M.R., Cohen and Somervell, L.JJ.; and if the present case eventually reaches the House of Lords, it is to be hoped that the survivors, as Lords of Appeal, will be able to show that the present position is not so nonsensical as Harman, J., undoubtedly felt it to be. Another disturbing feature of the present position is that in the case of a unilateral deed of covenant the settlor may extend the period of restriction by executing a deed without consultation with or the knowledge of the charity trustees or other beneficiaries and without appreciation of the taxation consequences.

Surtax

Settlement—Annuity to widow during widowhood—Death of settlor—Under will life interest in residuary estate to widow—Whole annuity charged to income of residue with no apportionment by trustee between capital and income—Underpayments to widow satisfied by transfer of part of capital assets of residuary estate — Non-payment of annuity in later years but whole income of residue paid to widow—Method of computing total income—Finance Act, 1938, Section 30.

Whilst Carlish v. C.I.R. (Ch. July 12, 1957, T.R. 205) was by no means without legal interest, its most striking feature was the way in which the appellant, Mrs. Carlish, conducted her her own case in the High Court, as she had done previously before the Special Commissioners. From the judgment of Harman, J., it appears that for fifteen years she had carried on a feud with the Westminster Bank Ltd. The bank was the trustee of a settlement made by her husband for her benefit prior to his death and was also executor and trustee under his will. In 1956, the feud had been terminated or suspended by an agreement which had been the subject of an order by Upjohn, J.; but, by that time, to quote the judge, "her affairs are perhaps more widely known than those of any other litigant in the Chancery Division." Mrs. Carlish had then "changed her target" from the bank to the Revenue and, again quoting,

> What she says is that she has paid quite enough surtax and she does not intend to pay any more.

In the absence of proper returns, estimated assessments to surtax had been made for the years 1937/38 to 1952/53; but it had been conceded that the assessment for the first of these years was out of date and had to be discharged. Appeals against the remaining assessments had come before the Special Commissioners upon eleven days over a period of two years and, in their stated case, it was declared that for the first six of these days no substantial point had been presented to them. They had, however, ultimately decided against the appellant on all the points where she was at variance with the Revenue; and in the High Court Harman, J., had affirmed their decisions, although not subscribing to all their reasoning. He said, at the commencement of his judgment, that the case had been before him for five days and that for the very much greater part of the time the appellant had represented her own interest, as she saw it, "with a volubility and persistence which would have been incredible unless one had experienced it." It was, he said, the more astonishing because about five-sixths of her argument she did not understand herself, and it was extremely difficult to find out what she really complained about.

The appellant had two distinct interests in the estate of her deceased husband: firstly, a charge in respect of the annuities created by the settlement, and secondly, a life interest in the residuary income of the estate. The bank, however, had paid the annuities out of income coming into its hands from time to time, apparently ignorant, the judge said, of the rule in *In re Perkins* (1907, 2 Ch. 596) whereby an annuity which does not arise under a will but is antecedent to it is not wholly payable out of income. For the first year it is to be wholly payable out of capital and then less and less so in succeeding years. Where, as in the present case, the annuitant and the person having a life interest in the residuary estate are one and the same—it was not so in *Perkins*—it means that that person's income from the estate for income tax and surtax purposes will be greater than the actual income of the estate by the proportion of the annuity which by virtue of the rule is payable out of capital. So far as can be judged from the report, most but not all of the issues in the case were directly or indirectly attributable to the bank's persistent disregard of the *Perkins* rule; and the case is not of sufficient legal interest otherwise to warrant a more extended note.

Estate Duty

Settlement—Assurance policies settled—Date when interest in policies arose—Whether interest in possession during settlor's lifetime—Finance Act, 1894, Section 2 (1) (d).

In re Barbour's Policies, In re Wrightson's Policies (House of Lords, July 4, 1957, T.R. 181) were two cases involving the same point. The cases were noted in our issues of December, 1955 (page 470) and November, 1955 (page 428) so far as the Chancery Division was concerned and in our issue of July, 1956 (page 284) after the Court of Appeal decisions. Both cases were a by-product of the House of Lords' decision in *D'Avigdor-Goldsmid* v. *C.I.R.* (1953, A.C. 347; 32 A.T.C. 26), which, as Harman, J.. observed when the *Barbour* case came before him, considerably altered views previously held. By Section 2 (1) (*d*) of the Finance Act, 1894, property deemed to pass on death is to include any interest purchased or provided by the deceased to the extent of:

> the beneficial *interest* accruing or arising by survivorship or otherwise on the death of the deceased

and the *D'Avigdor-Goldsmid* case finally decided that no claim arose under Section 2 (1) (d) on the maturity of a policy on the life of A. where that policy had been for over five years the absolute property of B. In the *Barbour's policies* case the policies were fully-paid at the time they were included in a settlement made by Sir John Milne Barbour on March 5, 1929. The settlor had died in

October, 1951, and consequent on the events that had happened, the settlor's nephew, James Barbour, became the first life-tenant under the settlement and entitled by virtue of and according to its terms to the income of the trust fund and its accumulations. For the Crown it was argued that the two policies were property provided by the settlor and that upon his death there arose or accrued to his nephew a beneficial interest in that property where previously there had been a mere interest in expectancy dependent upon his out-living the settlor and not giving him in the meantime any interest in the policies themselves. (This summary of the Crown's contention is subject to a qualification set out in the writer's note of December, 1955, a qualification which does not affect the principle involved in the case.) There was no power under the settlement for the trustee to surrender the policies or otherwise to deal with them during the settlor's life, nor was there any power to put the life-tenant into possession of the policies so as to enable him to surrender or otherwise deal with them. In the *Wrightson* case there were four fully-paid with-profits policies of assurance on the life of the settlor comprised in a settlement made in 1932; and, as in the *Barbour* case, it was not contended that duty could be payable otherwise than under Section 2 (1) (*d*). The 1932 settlement contained no power for the trustees to sell or surrender any of the policies. The settlor, Sir Thomas G. Wrightson, had four sons and had died on January 7, 1950. By the terms of the settlement the trustees were to receive the policy moneys and to divide them into six equal parts, three of which were to be paid to the trustees of another settlement, called the Neasham Hall Settlement, created by the settlor's predecessor in title who had died in 1921. Each of the three remaining parts was to be invested and the income thereof separately applied for the maintenance, education and benefit of the settlor's three younger sons, Peter, Rodney and Oliver, during their respective lives. If, however, one of these three should become tenant-for-life of the Neasham Hall estate or should die, then the trustees of the 1932 settlement were to pay or transfer his share of the trust fund to the trustees of the Neasham Hall settlement. By the 1932 settlement, Sir Thomas G. Wrightson had completely divested himself of all interest in the policies.

As the result of the *D'Avigdor-Goldsmid* case, the crucial question in both cases was whether or not on the death of the settlor any beneficiary acquired a *beneficial interest* which he did not have previously, although as a matter of fact the only *benefit* which James Barbour could receive from the settlement as tenant-for-life was dependent upon his surviving the settlor. The simile of a fruit tree was used by Lord Asquith of Bishopstone in the *D'Avigdor-Goldsmid* case and can be developed. Assume that A. transfers to the trustees of a settlement an estate consisting mainly of newly-planted apple orchards and completely divests himself of all his rights in the estate. The *benefit* to B., as tenant-for-life, will be dependent upon his living until the orchards come into bearing; but his *interest* in the estate will have been determined once and for all at the date of the settlement; and whether it benefits him or not will be irrelevant.

In the Chancery Division, Harman, J., whilst deploring the legal position, found himself bound by the *D'Avigdor-Goldsmid* case to reject the Crown's claims in both cases. The Court of Appeal, by a majority consisting of Lord Evershed, M.R., and Birkett, L.J., had reversed his decision, Romer, L.J., dissenting, it being held that by the terms of the *Barbour* settlement, all that James Barbour had got prior to the settlor's death was an interest in expectancy. No attempt was made in the Court of Appeal to distinguish the position in *Wrightson's* case from that in *Barbour*. In the House of Lords, the Court of Appeal decision was reversed by a majority, Earl Jowitt, Lords Morton of Henryton and Keith agreeing on complete reversal, whilst Lord Reid, although agreeing as to the *Barbour* case, differed from them as regards *Wrightson*. There, he said, the only express gifts to the four sons took the form of directions to the trustees to pay the income from the six equal parts of the policy moneys; and he found it difficult to infer from the terms of the settlement that the sons had any right with regard to the policies themselves other than the right common to all beneficiaries. If, as he held, the only beneficial interests declared by the settlement were interests in the proceeds of the policies and not interests in the policies themselves, Lord Reid said that beneficial interests, then, did accrue or arise on the settlor's death. So, "with some hesitation," he had come to the conclusion that the appeal from the Court of Appeal decision in the *Wrightson* case should be dismissed. Lord Radcliffe, dissenting from his colleagues, said that the basic idea of the Section was to impose a charge to duty where certain arrangements were made producing results analogous to a change of hands on death although not strictly amounting to such a change. The *Barbour* settlement was, he thought, a typical instance of such an arrangement and he entertained the clear opinion that the Court of Appeal decisions were right. He could see, he said, no distinction between the policies in the two cases.

In the course of his speech, Lord Reid, pointing to the fact that Section 2 (1) (*d*) deals with "beneficial interest" and not "benefit," remarked as regards the latter: "No doubt there were reasons why that was not made the ground for liability to duty."

Whatever the reason that prompted the 1894 draftsman, the result, as Harman, J., observed in the *Wrightson* case, is that the issue may depend upon small points of construction. This, he said, seemed a great pity and perhaps pointed to some defect in the law as it stood. As the actual and prospective loss of duty resulting from such settlements must be a serious matter, it may be assumed that the Revenue, usually not backward in net mending, is considering not the desirability of amending the law but how best to do it.

Tax Cases—Advance Note

COURT OF APPEAL (Jenkins, Parker and Pearce, L.JJ.)

Carson (H.M.I.T.) *v.* Cheyney's Executor. October 21, 1957.

The Court of Appeal unanimously dismissed the appeal by the Crown from a decision of Harman, J., who had held that royalties received by Peter Cheyney's executor under contracts made by Cheyney with publishers during his lifetime were not chargeable to income tax under Case III or Case VI of Schedule D. (See page 530 of this issue.)

Their Lordships held that the case was governed by the decision of the House of Lords in *Purchase* v. *Stainer's Executors* (1951, 32 T.C. 367).

Leave was given to appeal to the House of Lords.

Tax topics covered in Professional Notes are: "Higher Allowance for Dependent Relatives," "Taxation in Inflation," "The Cash Basis," and the Inland Revenue agreement to dispense with receipts in support of maintenance and similar claims ("Where are those Paid Cheques?")

The Month in the City

Rally Follows Fall

General weakness of the stock markets, on which attention was concentrated last month, continued effectively in most sections until the reassembly of Parliament on November 5. By that date, according to the figures of the *Financial Times*, industrial Ordinary shares had hit a new low since July, 1954, of 159.0. After that a very modest but general recovery set in: the causes are complex. It is the old story that the market is seldom as weak as when it is uncertain what will happen next, and the official attitude was revealed as both firm and, perhaps, less dangerous to profits than had been assumed. It is also to be noted that a careful reading of Opposition statements shows that their task in opposing the new programme outright must be based almost entirely on opinion of the merits of their not very clearly expressed alternatives. More important, from the market standpoint, has been the attitude of organised labour. Here there has been a great deal of opposition but, with a few exceptions, it seems that there is a certain reluctance to proceed to extreme measures. The best that can be said on this side so far is, however, that all remains uncertain. Further, a number of other factors are unfavourable to a continued rise in equity shares, whatever may be said of the Funds. The rise in equities lasted for just a week, up to the end of dealings for the old account. It has already had to face the continued appearance of accounts of which the majority showed some decline in net profits and virtually all a fall in profit margins. Production figures were also rather disappointing. Poor figures for October trade, coupled with the opening of a new account and an analysis of recent profits trends, published on that day, combined to reverse a rally which had always looked premature.

Interest Rates

The only really solid basis for a recovery was the growing evidence, including falling rates of interest in both the U.S.A. and Germany, that the extent of any recession in world trade is likely to be moderate and may be very slight indeed. But the continuance of the fall in our share of the total, despite the marked recovery in exports of the motor trade, makes it quite evident that industry as a whole cannot afford to face any material increase in total costs. This means that no general rise in wage rates of any appreciable extent is possible for trades largely concerned with exports. This fact is appreciated at least as widely abroad as it is at home and it means that inflationary rises in wage rates must come to a end. In these circumstances it seems clear that investors can look for no improvement in their prospects, at least as equity holders, until labour has accepted the fact that wage rises must, as the Government insist, be dependent upon higher production. It might be added that not the whole benefit of any increase in output can reasonably be passed on to the particular people concerned. It must be a considerable number of weeks, if not months, before it is clear how much loss of output will result from the Government's attempts to stop wage inflation by financial means. But recent events suggest that fears of a recession have been exaggerated, and this explains the movements in market prices between October 22 and November 20 as reflected in the indices of the *Financial Times*, namely, Government stock from 78.72 to 78.47; fixed interest from 86.60 to 86.96; industrial Ordinary from 167.1 to 172.4; gold shares from 69.6 to 73.4. All these indices stood lower at November 5.

Promising New Equity

The first sign of a recovery in prices was immediately followed by the announcement of the first of a new series of issues of industrial equities. This consisted of the offer of existing shares in *Henry Simon* (*Holdings*), the total being rather over one million shares of 5s. at 16s. 9d. The company is old-established—it is a half-brother of *Simon Carves*—and has been public for over a decade but this is the first time that those outside the circle of the family, directors and employees have been offered shares. It was founded by the father of the present Lord Simon and is the leading concern in flour milling and pneumatic and mechanical bulk-handling machinery. It has a good record and excellent management but, despite the rally, the price was thought to be high and 87 per cent. of the total issue was left with the underwriters, dealings starting at around 6d. discount. At this price the yield on the promised dividend will be £6 1s. 3d., which is apparently the best that a newcomer can expect in these difficult times. It is probable, however, that the whole issue will find a permanent home before long at this level or somewhere near it.

Trustee Borrowing

The Henry Simon offer was shortly followed by the opening of the season in the gilt-edged market with an offer of 6 per cent. stock 1975–78 by Nottingham at 98. This is the first Corporation issue for some six months, and it will be the only one with a 6 per cent. coupon rate other than a very small amount of Southampton stock issued in the early twenties. The amount is £3 million, apparently the maximum permitted on this type of issue, and the yield to final redemption is £6 3s. 6d. It may be recalled that Nottingham, with Brighton, was chosen to open the borrowing season in May of this year, when the offer was £2 million 5 per cent. stock 1969 at 97½. This was an almost complete failure, but the new offer is considered to be attractive—it produced a minor fall in the Funds—and in the event it was covered several times over and, despite some stag selling, closed on the first day at a premium no less than 2. This result probably owed something to the effects of the Serial Funding redemption. The amount of this stock was quite small and the immediate effect negligible; but later reinvestment of moneys from outside the market helped the rise, which has enabled the new issue season to get away to a good start in the gilt-edged market at least.

Sterling Strong

It is evident that confidence in sterling is returning. When one has adjusted the gold reserve figures on the real current-transactions basis it is seen that October was the best month for a long time and this has been followed by both a modest fall in the Treasury Bill rate, which owes something to oversea demand, and a general strengthening of sterling dollar rates. Before the middle of November the spot rate on New York was just over $2.80 and the three months' premium 2¾ to 2 7/16, while transferable sterling had touched a peak of 2.78½, and security sterling had risen from 2.72 to 2.75¾ after being rather better. Even resident sterling was in demand. All this suggests that, while the world at large is not yet certain that the fight against inflation will be pushed through, many of those who have gone short are evening up their positions, while the high rates here are attracting some funds, at least for the time being.

Points From Published Accounts

Consolidation of Interests

The presentation of *Renold Chains'* accounts is excellent, with a sensible use of colour, and the important figures emphasised in bold. Two particular points for comment are the treatment of depreciation and the absence of any consolidated statement of assets. No doubt the fact that most of the net assets in the subsidiary companies are situated in countries where there are restrictions on remittances to the United Kingdom has a bearing upon the treatment adopted, which is to show a consolidated statement of the *interests* of Renold Chains in its subsidiaries. From this it can be seen that the total amount attributable to the shareholding interests of Renold Chains is £2,081,972, a figure to go against the £1,166,457 at which these interests stand in the balance sheet of the parent company. If subsidiary companies are not wholly-owned, this is a more desirable way of showing the true picture than to merely provide a full consolidation leaving shareholders to work out for themselves the relative proportions.

The company is another of those preferring to strike the trading surplus after deducting a number of items, including depreciation. Depreciation amounts to £345,939, and is augmented by a further sum of £275,000 transferred to a re-equipment reserve. The directors' report comments as follows:

> As in previous years, the transfer to the re-equipment reserve is the amount calculated to be necessary to bring the sum of the cumulative depreciation and the re-equipment reserve up to what the cumulative depreciation would have been if all equipment had been acquired at prices ruling during the year.

Certainly a realistic interpretation is thus put upon the earning capacity, but even more realism would be achieved by a straightforward revaluation of assets.

Layout of Chairman's Statement

Simms Motor Units always produces a bright and cheerful set of accounts, liberally illustrated in colour, and with a photograph of some important aspect of the trading activities on the front cover. With all the attention that obviously goes into the layout each year it is surprising that the chairman's statement continues to be couched in a type face that is too small to read comfortably at the best of times and is made infinitely worse by being set in lines that are much too long. Much more space around the headings and, say, a double column layout would improve readability immeasurably.

Net Compared with Net

An item in the chairman's statement accompanying the accounts of *John Crossley—Carpet Trades Holdings* is a table showing how the income of the group is disposed of—how much of each £1 of sales is absorbed by materials and trading expenditure, how much by depreciation, and so on. Such figures are by no means uncommon: frequently they are shown in diagrammatic form—usually a "cake" diagram. What is especially worth notice is that in John Crossley–Carpet Trades figures it is specifically stated that not only dividends but also wages, salaries and employees' welfare have been included on a net basis. This seems a simple point, but many companies give no means of telling upon what basis such figures are shown, severely limiting the usefulness of the information. Indeed, these items are often not struck on all fours: it is badly misleading to include wages and salaries at their gross value and dividends at their net value.

A Novel Presentation

Colour has again been turned to full advantage in the 1956 report and accounts of *Permutit*. The design of the cover remains unchanged, but an entirely different appearance is gained by using a different background shade of blue, and by printing in black instead of yellow type. A yellow background continues to be used for the comparative figures inside. The accounts are primarily of interest, because a full consolidation is not given. The method adopted is to append to the balance sheet of the parent company a "statement of interests in subsidiaries." It is easy to see the argument—namely, that what the subsidiaries do with their profits is their own affair, and that the parent company. and hence its shareholders, are interested only to the extent, if any, that the subsidiaries remit their profits. From a strictly practical viewpoint, there is probably a lot to be said for the argument, but, at the same time, to exclude from the accounts the retained profits of the subsidiaries hardly gives a true and fair view of the assets and profits attributable to the shareholders' interest in the capital of the parent company. However, by another way of looking at the Permutit presentation, one could say that by separating the profits and assets of the subsidiaries, over and above what is taken into the accounts of the parent, shareholders are furnished with a ready-made picture of their interest in those subsidiaries, a picture which it is impossible to form from the more conventional approach of showing a consolidated account and doing away with the profit and loss account of the parent company.

The presentation is novel and perhaps for this reason tends to be viewed with caution. But it is an attempt to introduce new ideas into the field of company accounting and as we have tried to show there is quite a lot to be said in its favour.

A Flap in Accounts

A novel method of presentation is employed by *Morgan Crucible*. The main feature is the explanatory notes and a more detailed appraisal of separate items in the balance sheet which are printed on a fold-over flap. This interesting variation of the method employed by some other companies of printing the balance sheet on one page and having the relevent notes on a facing page, is a wholly admirable one. The only criticism we would make is that when both the flaps are opened the document tends to be cumbersome to handle. The balance sheets themselves are laid out in a simple and effective manner, with details of the share capital structure set out separately in a box stretching across the top of the left-hand page. The remainder of the page is devoted to "capital employed," the details being in the notes on the flap, and the right-hand page is headed "employment of capital." The headings are in red and the comparative figures in green, lending a distinctive appearance to the accounts. Whereas in the balance sheet and in the appropriation section of the profit and loss account the figures for the parent company and the group are separated by the descriptions of the items, in the main statement of profit the descriptions of the items are cramped together at the left-hand side of the page and both sets

of figures for the group (there are no parent-only figures at this stage) are set adjacent to each other on the right. No doubt any confusion with the parent figures is so avoided, but in our opinion the appearance of these two pages is spoiled. However, this is a small criticism to make of a set of accounts that shows plenty of vigour in its approach towards a desirable presentation.

Some Accounts of 1880

Looking at the accounts of *Neuchatel Asphalte* for the year ended December 31, 1880, a facsimile of which is appended to the latest report and accounts, one cannot help feeling that there is a lot to be said for a profit and loss account which starts:

	£	s.	d.
By sales of Rock, Powder, and Mastic.. ..	17,745	17	2
,, Stock on hand 31st December, 1880 ..	9,272	13	8
	27,018	10	10
Less Stock on hand 31st December, 1879 ..	7,906	17	7
	£19,111	13	3

Nowadays shareholders in the company have to be content with a trading surplus that is struck after depreciation and amortisation, provision for contract maintenance and auditors' remuneration, as well as after crediting certain other items not properly accruing from the group's actual trading operations. This, unfortunately, is a tendency that is becoming more and more widespread. There is little else, however, in the accounts of seventy-six years ago that would appeal more to the shareholder than the present layout does. In those palmy days every item was laboriously worked out to the nearest penny—for a company which, even then, could command total assets of well over £1 m.—and the balance sheet merely comprised a list of items with nothing to distinguish their relative importance or significance. It is here that modern accounting practice has made such big strides. The present reader of accounts no longer has to cast a weary eye down an unbroken column of figures trying to pick out a specific item. Everything is neatly parcelled up, sub-totals abound, and the whole thing is much easier to read and to understand. But perhaps the most notable feature of all in these 1880 accounts is the complete absence of any taxation items whatsoever, either in the profit and loss account or in the balance sheet.

Change of Accounting Date on Merger

The accounts of *Hovis-McDougall* are the first to be published following a merger between the two companies, effective on January 1 of this year. Since McDougall has had to change its accounting date to March 31 in order to fit in with Hovis, quite a few accounting problems have been raised, and, on this occasion at least, it has been decided not to publish a consolidated profit and loss account. The consolidated profits of the Hovis group are shown as a separate statement, and those of the McDougalls group for the nine months to March 31 last are on the facing page. It is a pity that some attempt was not made to give shareholders a readier appreciation of the combined earning capacity of the two businesses, but no doubt there will be an improvement when the undertaking has had a chance to settle down in its new form. The group profits available to the holding company are shown in the directors' report, but include only nine months' profits of McDougalls, and three of Hovis, making them largely academic from the viewpoint of a continuing business.

Too Much Compression

The only thing that mars the accounts of *John Thompson*, in which there is a unique use of colour, is the highly cramped layout of the consolidated balance sheet. Much of the detailed information about fixed assets could have been relegated to a notes section, so allowing more space for some of the other items; trade investments have been lumped under one heading with other quoted investments, not a desirable practice; and the list of deferred liabilities seems unnecessarily long (is there so much difference between "obsolescence" and "depreciation reserve," when the first amounts to only £10,000 anyway?).

The upshot of the present layout is that the balance sheet overflows the following two pages, so that readers are left high and dry with a total carried-forward and have to turn over a page to arrive at the final assets total. Yet there is a complete blank in the bottom half of the second two pages. Fortunately this is a fault that is easily remedied. It seems a shame to spoil an otherwise interesting layout in this way.

The Part More than the Whole

The logic of striking parent and group accounts, when they are both provided, on a comparable basis is indisputable. *Inbucon*, a firm of industrial consultants, surprisingly issues accounts showing, at first blush, that the parent company alone possesses greater assets than the group as a whole. The answer, on closer inspection, is seen to be that, whereas the balance sheet of the parent is constructed to produce a *total* assets figure, the group account is balanced on a *net* assets figure. In this instance, protest can only be made as a matter of principle that the layout should imply that a greater measure of importance is to be attached to the parent accounts than to those of the group.

Leading the Creditors a Dance?

On a previous occasion when we reviewed the accounts of the *Imperial Society of Teachers of Dancing, Incorporated*, we commented on the lucidity of the presentation. There is certainly no less lucidity in the 1956 accounts which have now come to hand. But the Society is still prone to appear to conjure items out of the air. Last time it was provision for medals; this time it is a bank deposit account of £3,630—£587 more than the surplus brought into the balance sheet from the income and expenditure account. Beginners to the art of bookkeeping who study the accounts will find it an interesting task to sort that one out! More sophisticated students may perhaps congratulate the Society on being able to make its creditors bear the burden of such increased items as competition trophies, stocks of books, stationery and medals.

Joking apart, the Society is clearly thriving, and keeping well ahead of its costs. There is little more that accounts of this nature are required to state. No sense would come out of cluttering them up with unnecessary detail: any additional information readers may require is quite adequately furnished in the report of the Council, at the head of which presides Mr. Victor Sylvester. Clearly dancing carries an expanding prospect, and the kudos that attaches to having a recognised qualification behind one's name is firmly stressed by the Society's examination fees comprising fully 67 per cent. of its total income. The income and expenditure account, incidentally, is very sensibly laid out, with expenses put under three main headings—"establishment," "administration," and "examinations and courses." Three sub-totals are thus available for anyone who wishes to make a close study of the way in which the Society's income is employed. Significantly enough, it is examinations and courses which absorb the bulk of income.

Readers' Points and Queries

Investment Allowance on Expenditure on Press Tools

Reader's Query.—Although the investment allowance has now largely been withdrawn there is one matter of great interest in connection with it which is still under discussion—expenditure on press tools.

The expenditure under this heading is in many businesses considerable but the Inland Revenue has ruled that these items come within the description in Section 137 (*d*) of "implements, articles and utensils" and that the investment allowance cannot be given in respect of them. Has this ruling been universally applied and is it thought to be correct?

On the point of the items indentifiable I think there can be no difficulty: in my experience press tools are numbered and registered and easily identifiable. Moreover, to my mind they form part of the plant because without them the machine tool itself would be of no use whatever. I think that if a claim were made that press tools should be included in plant for the purpose of capital allowances it would be hard for the Inland Revenue to resist the claim. It is only a matter of convenience that these tools are customarily dealt with on a valuation basis.

Reply.—The term "machinery and plant" is not defined anywhere and it is, therefore, a question of using words in their ordinary sense. This is a problem which could quite well be argued on appeal.

Tax on Beneficiary's Income from Trust

Reader's Query.—A beneficiary's share of trust income for tax purposes is the net amount received for any year (after deduction of the management expenses of the trust), grossed up at the standard rate of tax. For purposes of a repayment claim, is it necessary to deduct expenses from the net income from a trust in arriving at the figure regarded as the net received by the beneficiaries?

If so, it appears to me to be inequitable, since the expenses (for example, solicitors' fees) are taxed as receipts in the hands of the solicitor, and the Inland Revenue also retain tax on the grossed-up amount of these fees.

In a particular case there are three beneficiaries, all of whom are claiming repayment of tax. I have been told that the Inland Revenue will by concession repay the full amount of tax deducted, ignoring the expenses. My informant says that he knows of two cases where this has been done. However, several tax experts say they have never heard of this.

I am not at all clear about these concessions. If the Inspector in one district will allow a concession, does it follow that this same concession will be or ought to be given in another district? Does Somerset House have any say in the matter?

Finally, if it is necessary to deduct expenses, there is the question of what expenses must be included. For example, interest on estate duty, which is chargeable against income, is hardly a management expense.

Reply.—Any expenses which are properly payable by the trustees out of income under the terms of the trust or under statutory provisions must be deducted in arriving at the total income of the trust. The expenses are deducted from the net income and the balance is then grossed. The same result can be obtained by deducting the grossed-up expenses from the gross income of the trust. It is probable that in the cases referred to as "concessions" the expenses were payable out of income to which the beneficiary had already become entitled and were, therefore, an application of his income.

The underlying principle is clear—that the beneficiary receives his share of the balance of income only after paying proper expenses out of it. The trustees' expenses and proper management charges reduce the income available for the beneficiaries.

The Board of Inland Revenue control concessions and they should be of general application. However, an oversight is not a concession!

Interest on estate duty is really in the nature of an annual payment and although in general terms it is not deductible for income tax purposes, the gross equivalent is a proper deduction for surtax. It seems that as a result of Part XIX of the Income Tax Act, 1952, interest on estate duty would have to be deducted if paid in the course of administration of the estate, since it is the amounts paid to a beneficiary that have to be treated as his income. After the conclusion of the administration, however, interest on estate duty appears to be an application of income and, therefore, would not be deductible for income tax purposes.

Liability for Furnished Lettings

Reader's Query.—We shall be glad to have your opinion on the correct basis for determining the liability in respect of premises let furnished. Our experience is that there are three differing bases adopted:

1. Gross Rents
   Less:
   10 per cent. annual allowance
   Rates
   Gross annual value

   £

2. Gross Rents
   Less:
   10 per cent. annual allowance
   Rates and services
   Actual expenditure on repairs

   £

3. The Gross Rent is divided into two portions, one the "unfurnished rental" and the other the additional rent payable in respect of furnished letting. Under this method the excess rent liability on the unfurnished letting is calculated in the ordinary way and the liability in respect of the furnished letting is on the additional rent, *less* annual allowance, letting commission and management, etc.

The varying methods adopted have varying effects on maintenance claims submitted, by reason of the fact that maintenance relief is restricted to the Schedule "A" value *plus* excess rent assessments.

Reply.—In our opinion method 3 is the most correct of the three. In method 2 the net annual value would also be deductible. Method 1 does not give adequate relief since the gross annual value is no longer deductible. If the repairs are heavy, method 2 might give more relief than method 3 but on balance method 3 is usually more beneficial. The deduction of gross annual value in method 1 was a concession which was criticised by the Public Accounts Committee, with the result that the concession is in course of being withdrawn.

Publications

Cost Finding in the Non-Ferrous Metals Industry. Pp. 84+57 examples. (*The British Non-Ferrous Metals Federation, 132 Hagley Road, Birmingham, 16:* 42s. net.)

THIS IS ESSENTIALLY a book for practical application. It was written with the specific object of providing, for those members of the British Non-Ferrous Metals Federation who have only limited experience of costing, a manual setting out a reliable means of cost finding suitable as a basis for price fixing.

Students of advanced costing techniques will not, therefore, look here for a treatise on standard costs and management accounting applicable to the non-ferrous metals industry. But those concerned with manufacture from primary metals will find much of interest and assistance if they are contemplating the introduction of a costing system or of improvement in their present methods.

The limited objective of the book is successfully achieved. Sound and accepted practices are recommended, and a costing system based on them would have a solid foundation on which more elaborate superstructures could later be built, with greater usefulness to company management.

As would be expected in a book on accounting for an industry using relatively expensive metals, the treatment of raw material is examined at some length. Here is a difficult subject, but it is clearly discussed. It is surprising, however, that a word of warning is not given to the unwary on the use of works records not subject to normal accounting checks.

The method of classifying and allocating expenses is adequately explained and well illustrated with examples. The authors harbour no doubts that for costing and pricing the replacement cost basis of depreciation should be used and the procedure is described. However, in chapters devoted to the application of costs in fixing the prices of the various commodities in the industry, it is not always clear whether "cost" relates to an actual historical cost or one adjusted for pricing purposes.

The final chapters explain and rightly emphasise the need for short-term financial accounts with an analysis of the results by main product groups.

The authors of this book should be complimented on their clarity of expression, their freedom from cost accounting clichés, and their layout, which enables the comprehensive range of examples to be studied whilst reading the text and without turning from page to page. H.A.T.

Irish Income Tax and Corporation Profits Tax. By H. A. R. J. Wilson, F.C.A., F.S.A.A., and F. N. Kelly, B.A., F.S.A.A. Pp. xxii+287. (*H.F.L. (Publishers) Ltd.:* 35s. net.)

AS THE AUTHORS of this book state in their preface, there has been a demand for a book of this nature for many years, as apart from one or two books of a reference nature there has been no textbook on Irish taxation specifically designed for the use of students. The book will be invaluable not only to Irish students, however, but also to the Irish businessman and professional accountant and solicitor.

The text is arranged in paragraphs numbered consecutively throughout, an arrangement which, in conjunction with the excellent index and the cross references that are incorporated where necessary, greatly facilitates reference.

Extensive reference has been made to Irish and British tax cases and an index is given of the cases quoted.

From the point of view of the student, one of the most valuable characteristics of the work is the excellent series of illustrations and computations, accompanied by extensive notes dealing with practical points and pinpointing the reasons for the various adjustments that are made. The authors have also extended the information provided for students by dealing with the treatment in accounts of provisions and reserves for taxation.

Mr. Wilson and Mr. Kelly have performed a valuable service by indicating various concessions which are customarily made by the Revenue Commissioners. No official publication of these concessions is available and it is only through practical experience or by reference to a work such as this that the practitioner can become aware of them. A separate index of the concessions quoted would have been helpful.

The authors are to be congratulated on satisfying, in such excellent manner, a long-felt need by students and the profession in Ireland. J.L.

Meetings. The Regulation of, and Procedures at, Meetings of Companies and Public Bodies and at Public Meetings. By F. D. Head, B.A., Barrister-at-Law. Sixth edition. Pp. xiii+246. (*Sir Isaac Pitman & Sons Ltd.:* 18s. 6d. *net.*)

THE COMMON LAW on meetings has suffered very few changes in the past century. Modern practices, such as tape recording and the radio and television broadcasting of public meetings, however, bring fresh practical problems, some of which have been clarified in the Defamation Act of 1952. The chapter on defamation has accordingly been completely revised in the sixth edition of Mr. Head's book.

Since it is intended primarily for the company secretary and for students preparing for the accountancy and secretarial examinations, naturally the bulk of the text (about 75 per cent.) deals with meetings of companies. The relevant sections of the Companies Act, 1948, including Table A, have been set out in full, thus saving constant reference to the Act. Nevertheless, a table of statutory references would be a useful addition to the table of cases and would take very little space.

Throughout, the author has interpolated precedents in the form of model notices, agenda, resolutions and minutes; these are most helpful not only to the student but to the practising accountant who must perforce spend much of his time dealing with such matters in connection with the affairs of his client-companies.

The provisions of Section 209 of the Comapnies Act, 1948—almost unique in giving individuals power to force property owners to sell some of their property other than to the State—are very briefly mentioned and, as usual, the diminishing rights of minorities are largely ignored.

The appendix, containing details of some sixty of the leading cases, most of which are referred to in the book, provides most interesting reading. If only this appendix could be studied by all company chairmen many of the incidents that occasionally mar meetings of even the most reputable companies could be foreseen or prevented. L.J.

Income Tax and Profits Tax in a Nutshell. By "B.C.A." Tutors. 1957 Edition. Pp. xii+202. (*Textbooks Ltd.:* 17s. 6d. net.)

THIS IS A book intended for students, written by men who have a wide knowledge of students' problems. It is, therefore, not surprising that the task is accomplished competently and that a great deal of material is successfully compressed into comparatively few pages.

The book is divided into twenty

sections, each dealing with a particular aspect of taxation. The sections are well planned and laid out; the text, in true "nutshell" style, is concise, conveying the maximum of information with the minimum of words, but avoids becoming so terse as to render the meaning obscure. After each section there are one or more numbered but otherwise blank pages, enabling the student to make his own amendments or additions to the text. Unfortunately, the idea is not extended to the index, which, whilst otherwise good, does not permit the student to index his annotations.

The text is amply illustrated with clear examples (the appearance in one of the examples of a Mr. Andy Pandy should not be taken as an indication of the mental age of the average student!), and is refreshingly up-to-date, taking account of all the changes made by the Finance Act of 1957, even to a page on Overseas Trade Corporations.

It is perhaps a somewhat alarming indication of the complexity of the subject that even a "nutshell" runs to some two hundred pages. The major problem confronting the authors must have been what to leave out rather than what to put in, and this problem they have on the whole solved very well. If they are to be faulted, one might suggest that more space should have been devoted to annual payments and Sections 169 and 170 of the 1952 Act—a matter so often only imperfectly understood by students (and indeed sometimes by practitioners as well). Similarly, can an eleven-page section on profits tax altogether do justice to that not uncomplicated tax?

To sum up, whilst this is not a work likely to find its way on to the practitioner's bookshelves, nor one which should take the place of more detailed textbooks for the student, it is nevertheless one which should be welcomed by the examination candidate, who will find it quite invaluable as an aid to his studies, particularly in revision, and as a work of rapid reference. A.J.T.

An Outline of Accounting. By Louis Goldberg. Fourth Edition. Pp. viii+150. (*Sweet and Maxwell, Ltd.:* 17s. 6d. net.)

THIS WORK, BY the Senior Lecturer in Accountancy at the University of Melbourne, was first published in 1939 as *A Philosophy of Accounting*. It was originally written for a thesis competition and was awarded the prize therefor by the Commonwealth Institute of Accountants. Its purpose, which indeed it achieves in an admirable manner, is to set out a logical, consistent approach to the study of accounting.

Part one deals with the scope and nature of accounting; part two sets out the theory of accounting procedure; part three applies this theory; and part four gives a consideration of some accounting systems.

In its 150 pages the book provides in a clear and detailed manner an explanation of the accounting and banking functions. From the viewpoint of a practical accountant the definitions of bookkeeping and accountancy, which occupy six pages, may appear to be too extensive but it must be remembered that the book was originally a thesis.

The author shows *inter alia* the advantages of using the report form of balance sheet over the account form and also how the reporting functions of financial statements can best be employed in serving management.

The observation "that the important feature of an accounting system is adequacy, whilst at the same time avoiding redundancy" is indeed sound and refreshing guidance to accountants.

Accountants should ponder over the last paragraph of this excellent Australian publication—"No matter how splendid a memory a person may have, nor how engaging or dominating a personality, he will never become a sound accountant unless he can think clearly and logically and thus be able to force his mental way through the overburden of external associated ideas to the fundamentals of financial transactions." R.N.B.

Books Received

The Malta Directory and Trade Index, 1957. Pp. 399. (*Malta Publicity Services Ltd., 175 Merchants Street, Valletta:* 25s. 6d. net, post free.)

County Borough of West Ham—A Financial Summary for the year ended March 31, 1957. Pp. 19. (*Borough Treasurer, Municipal Offices, The Grove, Stratford, E.15.*)

L. Urwick—A Bibliography. Pp. 45. (*Urwick, Orr & Partners, Ltd., 29 Hertford Street, London, W.1:* no charge.)

Overseas Newspapers and Periodicals. Fifth edition, 1956. (*Publishing and Distributing Co. Ltd., 177 Regent Street, London, W.1:* 7s. 6d. paper bound, 10s. cloth.)

Borough of Luton. Financial Survey, 1956–57. Pp. 37. (*Borough Treasurer, Town Hall, Luton, Beds.*)

The Index of Technical Articles. A monthly index of articles published in British Technical Periodicals. No. 5, June, 1957. (*Iota Services Ltd., 38 Farringdon Street, London, W.C.4:* Subscription £6 6s. per annum; 10s. 6d. per copy.)

City and County Borough of Coventry. Abstract of the Treasurer's Accounts for the Year ended March 31, 1957. Pp. 424. (*City Treasurer, Council House, Coventry.*)

Borough of Luton. Abstract of Accounts for the Year ended March 31, 1957. Pp. 290. (*Borough Treasurer, Town Hall, Luton.*)

The Manual of Modern Business Equipment: Part 22, Retail Cash and Credit Control Methods and Machines, pp. 68. Part 23, Time Control Systems, pp. 43. Part 24, Recorded Dictation, pp. 36. Part 25, Addressing Machines, pp. 35, and Part 26, Seating, pp. 32. Prepared by the Office Appliance and Business Equipment Trades Association. (*Macdonald & Evans, 8 John Adam Street, London, W.C.1:* 4s. 6d. each part. Now complete in 26 parts, 2 volumes, £6 6s. including binders and index.)

Borough of Swindon. Abstract of Accounts for the Year ended March 31, 1957. Pp. 234. (*Borough Treasurer, Civic Offices, Swindon, Wilts.*)

The Institute of Chartered Accountant of Scotland. Official Directory, 1957. Pp. xiv+512. (*Institute of Chartered Accountants of Scotland, 27 Queen Street, Edinburgh 2.*)

Promotion and Pay for Executives. By George Copeman, PH.D. Pp. 216. (*Business Publications Ltd., Mercury House, 109–119 Waterloo Road, S.E.1:* 18s. net.)

Outline of Work Study. Part III, Work Measurement. Prepared by the British Institute of Management. Pp. xi+97. (*British Institute of Management, Management House, 80 Fetter Lane, London, E.C.4:* 12s. 6d. net.)

Supplement to Guide to the Law of Trustee Savings Banks. By C. L. Lawton, O.B.E., LL.D., Barrister-at-Law. Pp. 63. (*The Savings Banks Institute, 35 Welbeck Street, London, W.1:* 4s. net.)

An Estate Duty Notebook. By G. Boughen Graham, LL.B., Barrister-at-Law. Second edition. Pp. xvi+141. (*Solicitors' Law Stationery Society Ltd.:* 17s. 6d. net.) The first edition was reviewed in ACCOUNTANCY for January, 1955, page 36.

Newport and Plunkett: Income Tax Law and Practice. Supplement to August 1, 1957, to twenty-seventh edition. (*Sweet & Maxwell Ltd.:* 3s. 6d. net.)

The Computer. Alternate months. Vol. 1, Nos. 2 and 3, August and October, 1957. (*British Computer Society, 29 Bury Street, St. James's, London, S.W.1:* No. 2, 2s. 6d.; No. 3, 10s. Free to members.)

Legal Notes

Company Law—
Dispensing with List of Contributories

By Section 257 (1) of the Companies Act, 1948, "as soon as may be after making a winding-up order, the court shall settle a list of contributories, with power to rectify the register of members in all cases where rectification is required in pursuance of this Act, and shall cause the assets of the company to be collected and applied in discharge of its liabilities, provided that, where it appears to the court that it will not be necessary to make calls on or adjust the rights of contributories, the court may dispense with the settlement of a list of contributories." In **Re Phoenix Oil and Transport Co. Ltd.** [1957] 3 W.L.R. 633, the liquidator of a company which was being compulsorily wound up had discharged all the liabilities of the company with insignificant exceptions and had some £640,000 in hand to distribute between the 9,000-odd holders of fully-paid Ordinary stock. He applied for an order that the settlement of a list of contributories be dispensed with. Roxburgh, J., held that, although the holders of fully-paid stock were not liable to contribute to the assets in the event of a winding up, they were, on the authorities, "contributories"; but the distribution of the assets between the holders of fully-paid stock was not in his view an "adjustment" of the rights of contributories. Accordingly, this was a case in which the Court had power to dispense with the settlement of a list of contributories, and it was right to exercise that power. The procedure for settling the list was designed to give persons an opportunity of objecting to being placed on the list; but in this case no one would object to being placed on the list, and the expensive process of settling the list would afford no safeguard against such dangers as might exist — for example, the inadvertent exclusion of a shareholder from the list or the failure to register a transfer.

Company Law—
Winding-up of Dissolved Foreign Companies

An old friend, the Banque des Marchands de Moscou, a Russian company which was dissolved under Russian law by 1920 at latest, has again graced the law reports. The company was ordered to be wound up in England in 1932 and the order contained a provision, usual at that date, that it was made without prejudice to the claim of the Crown to any of the assets of the company that might have become *bona vacantia*. The liquidator collected the English assets and after paying off debts and making allowance for costs and expenses he estimated that about £50,000 might be left in his hands. He now asked the Court whether he should pay over this balance to the Crown or how else he should distribute it.

In **Re Banque des Marchands de Moscou** [1957] 3 W.L.R. 637, Roxburgh, J., said that it was now well settled that an order for winding up a dissolved foreign corporation under the Companies Act of 1929 or that of 1948 defeated the title of the Crown to assets as *bone vacantia* so far as might be necessary to pay former creditors, and by the same reasoning the Crown's rights must be postponed to the rights of beneficiaries. In this case the beneficiaries were those who could prove their title to the assets under Russian law as it stood at the time of the dissolution of the company, for it was accepted by all parties that the English assets were not affected by any subsequent confiscatory laws passed by the Soviet Government. After hearing evidence from an expert in Russian law his Lordship found that the former shareholders became entitled to participate in any available assets to the extent which bore the same proportion to the assets as their shares bore to the total issued capital of the bank at the date of its dissolution, and he made an order accordingly. No doubt many former shareholders will not be able to prove title and it would appear that the Crown will be entitled to the final balance.

Contract and Tort—
Agreement Between Two Companies Not to Engage Each Other's Servants

In **Kores Manufacturing Co. Ltd. *v.* Kolok Manufacturing Co. Ltd.** [1957] 1 W.L.R. 1012, Kores had in 1934 written a letter to Kolok in the following terms: "In consideration of your agreeing not without our written consent to, at any time, employ any person who, during the then past five years, shall have been a servant of ours, we undertake not without your written consent to, at any time, employ any person who during the then past five years shall have been a servant of yours." Kolok accepted this offer and for many years both companies observed the agreement. At length, owing to changed circumstances, a dispute arose as to the validity of the agreement. Lloyd-Jacob, J., held that this was a contract in restraint of trade and for the restraint to be valid at common law two conditions must be fulfilled: the restraint must afford no more than adequate protection to the parties and it must be reasonable in the interests of the public. He held that on the facts neither of these conditions was fulfilled and that accordingly the contract was invalid.

He further held that, if the contract was valid, it was subject to an implied term that it could be terminated by either party on reasonable notice, and that twelve months would have been a reasonable notice.

Insolvency—
Stay of Pending Proceedings on Bankruptcy

When the case of **Réalisations Industrielles et Commerciales S.A. *v.* Loescher** [1957] 1 W.L.R. 1027 was called on for hearing, Lynskey, J., was informed that on the previous day the defendant had filed his own petition in bankruptcy and that the Registrar had thereupon made an order for adjudication. His Lordship then had to consider whether the making of the adjudication order operated as a stay of proceedings so as to prevent him continuing to hear the action. He said that if it was the plaintiff who was adjudicated bankrupt the Court would not be able to continue the hearing without having the Official Receiver or the trustee before it; but there was nothing in the Bankruptcy Act, 1914, which suggested that an adjudication order upon a defendant by itself operated as a stay of proceedings. Both the Bankruptcy Court and the court in which proceedings were pending had power to order a stay at any time after presentation of a bankruptcy petition, and this power continued after adjudication. In the case before him the plaintiffs were anxious to proceed as they had brought over from Paris a witness who might not be able to appear again, and his Lordship decided that, even though his decision would not be binding upon the Bankruptcy Court, it would be proper for him to hear the case.

The Student's Columns

CHANGE OF ACCOUNTING DATE

UNDER THE PROVISIONS of the Income Tax Act, 1952, assessments under Cases I and II of Schedule D are made on the adjusted profits of the accounting period ending in the preceding year of assessment, except in the early and closing years of the business. But assessments are so made only if:

(*a*) the accounting period is of exactly twelve months' duration;

(*b*) the accounts for that period are the only set of accounts ending in the preceding year of assessment; and

(*c*) such accounts commence at the end of the basis period for the previous year of assessment or at the commencement of the business.

If one or more of the provisions (*a*) to (*c*) above are not complied with, the Commissioners of Inland Revenue (C.I.R.) are to choose a date in the preceding year of assessment and build up a set of accounts for a period of twelve months ending on that date. In compiling such a set of accounts it may be necessary to apportion the profits shown by existing sets of accounts in months or fractions of months. The assessment for the year preceding that for which the above adjustments have been made may be adjusted by the C.I.R. on a corresponding basis.

It should be realised that the profits (as adjusted under the provisions of Section 137, Income Tax Act, 1952) of sets of accounts actually prepared by the taxpayer are taken into the computation. The "splitting" of accounts is artificial and necessary only to ascertain the assessments. In such circumstances the Inspector of Taxes usually proposes to the C.I.R. figures that tend to give assessments equal to the average profits of the accounts on which those assessments are based. The method adopted is the same whether the taxpayer is a sole trader or a partnership or a limited company.

Assume a taxpayer has made up accounts as follows:

Year to March 31, 1954—adjusted profit	£12,000
Year to March 31, 1955—adjusted profit	£18,000
Year to March 31, 1956—adjusted profit	£10,000
Period to July 31, 1957 —adjusted profit	£15,000

Accounts will be made up to July 31 in each future year.

His assessments are:

1954/55—based on accounts to March 31, 1954 ..	£12,000
1955/56—based on accounts to March 31, 1955 ..	£18,000
1956/57—based on accounts to March 31, 1956 ..	£10,000
1957/58—no set of accounts ending in preceding year of assessment, so accounts will have to be built up.	
1958/59—cannot be based on accounts ending on July 31, 1957, although these accounts end in the preceding year of assessment, as that set of accounts is not for a period of twelve months. Therefore a set of accounts must be built up for this year.	

Commencing with 1958/59, the assessment may be based on a period of twelve months to July 31, 1957, namely, 12/15ths × £15,000 = £12,000. Similarly, the 1957/58 assessment may be based on the profits for the twelve months to July 31, 1956, or 9/12ths of £10,000 + 3/15ths of £15,000 = £10,500. The 1956/57 assessment on the same basis, i.e. the year to July 31, 1955, will be 9/12ths of £18,000+3/12ths of £10,000=£16,000. The 1955/56 assessment requires no adjustment, as it is based on a set of accounts which comply with rules (*a*) to (*c*) mentioned above. As 1956/57 is the first year (working backwards) for which it is not necessary to "build up" an assessment, that year is the "corresponding period."

The next step is to ascertain the accounting periods that are affected by the "build up" of assessments for 1958/59, 1957/58, and the corresponding period. These accounts cover a period of 39 months and show aggregate profits of £43,000, as follows:

Year to March 31, 1955 ..	£18,000 (needed for corresponding period)
Year to March 31, 1956 ..	£10,000 (needed for corresponding period and 1957/58)
Period to July 31, 1957 ..	£15,000 (needed for 1957/58 and 1958/59)
	£43,000

The third step is to ascertain the years of assessment, the figures for which use the results of these three accounting periods. Such years are:

1955/56	accounts for year to March 31, 1955.
1956/57, 1957/58, 1958/59	see above.

Thus four years of assessment are involved, i.e. a period of 48 months. It is necessary, therefore, to multiply the profits of the three accounting periods by a fraction, whose numerator is the number of months in the years of assessment and whose denominator is the number of months in the accounting periods, viz:

$$\frac{48}{39} \times £43{,}000 = £52{,}923$$

The assessment to be adjusted is always that for the corresponding period. This becomes £12,423.

1958/59, as calculated	£12,000
1957/58, as calculated	10,500
1955/56, preceding year basis ..	18,000
	40,500
1956/57, balance	12,423
Profits as above	£52,923

The figure of £12,423 falls between the original assessment of £10,000 and that based on the corresponding period, viz., £16,000. Unless, therefore, the taxpayer claimed and proved that the above method was unfair the C.I.R. would approve an additional assessment of £2,423. Although this will not apply in the above example, normally the Inspector will not revise the assessment for the corresponding period where the difference does not exceed ten per cent. of the average of the assessments for the current and preceding year and is less than £1,000.

A different basis, but still applying the principle of averaging profits, will be employed by the Inspector if:

(i) the above computation gives a figure which is not between the original assessment and the profit of the corresponding period;

(ii) losses are involved;

(iii) there are seasonal fluctuations in trade; and

(iv) one or more of the years concerned are affected by the provisions relating to new and discontinued businesses.

JOINT VENTURE ACCOUNTS

A JOINT VENTURE has been defined as "a partnership confined to a particular adventure, speculation, course of trade or voyage and in which the partners use no firm or social name and incur no responsibility beyond the limits of the adventure." The partnership is no different from an ordinary one, except that it is of a limited nature. The subject of the venture is often a joint consignment of goods or a speculation in shares or an underwriting transaction. The combined services and efforts of the venturers may well produce a more remunerative result than could be obtained by each party independently.

There are two main classes of joint ventures from the accounting point of view.

When Books Exist for the Venture

Firstly, the venture may be sufficiently important to warrant the keeping of a distinct set of books. Possibly a joint banking account would be opened and operated and transactions recorded, as in an ordinary partnership. Whatever is paid into the joint account would be credited to the relevant capital accounts; interest on capital would sometimes be charged, more particularly if unequal capitals had been advanced. Perhaps no special banking account would be opened, although a separate set of books existed: then the capital account of each party disbursing or receiving cash in respect of the venture would be credited with sums paid out by the venturer and debited with amounts collected by him.

Profits would also be credited to each capital account and losses debited.

We have been considering the entries made in the joint books. But each venturer must also take cognisance of the transactions of the venture in his own individual books, even though separate books are kept for the venture.

When No Books Exist for the Venture

If no separate set of books is kept for the venture, each party would still record in his own individual books each of his transactions relating to the venture. Note especially that the venturer would in the absence of books for the venture record only the transactions that directly affect him.

The following is the bookkeeping:

1. An account headed "Joint Venture with . . ." is opened. It is debited with the contributions and expenses incurred in respect of the venture; cash or creditors is correspondingly credited.
2. On a sale taking place, the account "Joint Venture with . . ." is credited and cash or debtors debited.
3. A memorandum joint venture account is drawn up, corresponding to the profit and loss account of an ordinary business. The account, which is purely "memorandum" (not part of the double-entry records proper), contains a complete record of all transactions of the venture. Thus transactions shown in the individual books of the parties appear in the memorandum joint venture account, subject to any *contra* items (such as cash passing between the parties) being eliminated. It should be observed that the items in the account will appear on the same side as they do in the personal account in each party's own individual books.
4. In his own individual books, each venturer debits his own share of profit to the personal account of the other party and credits it to his own profit and loss account. If there is a loss, the reverse entries are made.
5. The balances on the individual accounts represent what is due to each party by his co-venturers or by the party to his co-venturers, and settlement is effected accordingly.

If the venture is not completed and it is desired to close the books for balance sheet purposes, unsold stock must be taken into account and special treatment becomes

necessary. The value of the stock is brought down as a balance on the debit side of the memorandum joint venture account and in his own individual books each party brings down in the personal account the stock he still has in hand. Alternatively, the stock is divided between the parties in the profit-sharing ratios, and each party brings into account his share, thus showing the respective interests in the stock. The loss would then be borne in the correct ratios if the stock subsequently proved to be worth less than the value put on it, and no further adjustment would be necessary. Stock-on-hand may be valued at cost plus a proportion of the expenses attributable to the goods—buying expenses, carriage inwards and so on. If market value is below cost, the lower value is taken. As for unsold stock on consignment, selling costs are not included.

If interest is being charged by agreement between the parties on the various debits and credits to the date of balancing, the interest must be inserted in the memorandum joint venture account before the profit or loss is struck.

(To be continued)

Letter to the Editor

Diploma in Office Management

Sir,—My attention has been drawn to the editorial "Occupation—Clerk" in your September issue (page 379).

In view of your comments, you may be interested to know that this Association offers a diploma in office management which covers most of the aspects to which you referred. In addition, the Association is sponsoring courses in office administration and office methods, the syllabuses for which are similar to those for these subjects in Part B of the diploma examination. The purpose of the studies and the scope which they cover is set out fully in a brochure obtainable from me.

Yours faithfully,

J. L. COUSINS,
Secretary.

Office Management Association,
58 Victoria Street,
London, S.W.1.

Notices

The **Accountants' Christian Fellowship** is holding its monthly meeting for Bible reading and prayer at 6 p.m. on December 2 in the vestry at St. Mary Woolnoth Church, King William Street, London, E.C.3. The scripture for reading and thought will be Luke, chapter 5, verses 18–26 (the miracle of the cure of the paralysed man).

Life policies of the Phoenix Assurance Company are now issued in **diothene** pockets instead of in paper ones. The pockets are made by the Metal Box Co. Ltd., and the company's emblem and policy instructions are printed on them. Diothene is the Metal Box brand of polythene film: it is transparent, not perishable or affected by damp, and does not fray or tear. It can be printed in up to four colours, and diothene pockets can be used for pass books, deeds, wills, and other documents which must be kept safely.

A new edition, in loose-leaf form, is being prepared of the Inland Revenue publication **Income Taxes in the Commonwealth**. It is hoped to publish the first two parts, covering the continents of Africa and America, in 1958, and the remaining parts, covering the other continents, in 1959. The whole will be contained in a single binder, and kept up to date by periodic supplements. No supplement is being issued this year to the 1951/52 edition.

The Lyons Prize is to be awarded by the Office Management Association for a paper, report or article describing an office organisation or reorganisation. The award will take the form of a silver medal and a prize to the value of £40. Further particulars may be obtained from the Secretary, Office Management Association, 58 Victoria Street, London, S.W.1. Entries for the first award must reach him not later than March 31, 1958.

A course on **The Commercial and Industrial Application of Computers** will be held at the Constantine Technical College, Middlesbrough, on Monday evenings at 7 p.m. from January 20 to March 17, 1958. Application for enrolment should be made to the Head of the Department of Commerce at the College.

A Glasgow branch of the **British Computer Society** is to be formed. Information can be obtained from the Secretary of the British Computer Society, 29 Bury Street, St. James's, London, S.W.1, or from the convener of the Glasgow Branch, Mr. K. D. Henderson, 89 Wellington Street, Glasgow, C.2.

An **exhibition of tape recorders** was held by *The Hatherley Photographic Co. Ltd.*, on November 19 to 21 at the Kingsley Hotel, London, W.C.1. It is believed that this was the first exhibition to be devoted entirely to tape recorders. The range of models demonstrated included the "portable sound recording studio" known as the *Winston Thoroughbred.*

THE SOCIETY OF
Incorporated Accountants

Extraordinary General Meeting

AN EXTRAORDINARY GENERAL meeting of the Society was held at Incorporated Accountants' Hall on November 1.

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society) occupied the chair. Sir Richard said: I wonder if you would agree with me, particularly having regard to the length of it, that we might take the notice convening the meeting as read. (*Agreed.*)

The circumstances in which we meet today do not call for a long speech, but I want to explain the position we have now reached in regard to integration.

The special resolution approving the schemes was duly passed by members of the Society by the requisite three-fourths majority on the poll taken following the extraordinary general meeting held on June 19.

On August 23 the necessary alterations to the regulations of the English and Scottish Institutes were approved by the Privy Council. On October 18 approval of the necessary amendment of the Bye-laws of the Irish Institute was given by the Privy Council in Northern Ireland, and approval was given by the Government of the Republic of Ireland on October 22.

Thus all that remains to be done is the passing of the resolution now before you to place the Society in voluntary liquidation and to transfer the net assets to the English Institute, which will make appropriate payments in accordance with the schemes to the Scottish and Irish Institutes in respect of members joining those Institutes. This resolution will be proposed as a special resolution and to be effective it must therefore be passed by a three-fourths majority of members voting.

Effective Date

All three Institutes desire that the schemes should become effective as soon as possible after the passing of this resolution. To this end the Councils of the Society and of the three Institutes have already agreed that if the resolution is duly passed today the schemes shall become effective tomorrow, November 2, 1957. In that event each member would receive at an early date a communication giving information about the procedure for applying for membership of the appropriate Institute.

The schemes provide for ten seats on the Council of the English Institute to be filled by members of the Council of the Society and for four seats on the Council of the Irish Institute to be filled by four members of the Society resident in Ireland.

Members of Councils of the English and Irish Institutes

The ten members appointed to serve as members of the Council of the English Institute are: Mr. John Ainsworth, City Treasurer of Liverpool, Mr. Edward Baldry, my Vice-President, Mr. Charles Percival Barrowcliff, a past President, Mr. Leonard Cecil Hawkins, Mr. James Stanley Heaton, Mr. Hugh Oliver Johnson, Mr. Harold Leslie Layton, Mr. Bertram Nelson, my immediate predecessor, Mr. Frank Edward Price and myself.

The four members appointed to serve on the Council of the Irish Institute are Mr. Mervyn Bell and Mr. Robert Bell, both of whom are Council members, Mr. John Love, Secretary of the Irish Branch, and Mr. Robert John Neely, immediate past President of the Belfast and District Society.

The Resolution

The terms of the resolution do not call for any comment. They are quite clear and give final effect to the decision of members on integration. I therefore now propose as a special resolution:

That

(*a*) The Society be wound up voluntarily and that James Atkinson Allen, F.S.A.A., of 15 Hanover Square, London, W.1, and Ian Archibald Forbes Craig, of Furzedown, Limpsfield, Surrey, be and they are hereby appointed joint liquidators for the purposes of such voluntary winding up.

(*b*) Notwithstanding the winding up of the Society the continuance of the powers of the Council is hereby sanctioned to enable the Council so far as may be necessary:

(i) To continue to register articled clerks and bye-law candidates.

(ii) To conduct examinations.

(iii) To admit further members to the Society.

(iv) To exercise its disciplinary powers.

(v) To agree the dates when the schemes of integration dated December 5, 1956, and made between The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland and The Institute of Chartered Accountants in Ireland and the Society shall become effective.

(vi) To perform any other functions required by any of the said schemes to be performed by the Council of the Society.

(vii) To give any consents or exercise any powers which the Society can give or which are vested in the Society under the trust deed and rules constituting the Society's Staff Superannuation Scheme provided that the giving of any such consent or the exercise of any such power shall not without the consent of the joint liquidators involve the Society in any expenditure.

(*c*) Such property (including such rights as the Society can transfer to grant and withhold the designation "Incorporated Accountant" and the use of the designatory letters "F.S.A.A." and "A.S.A.A.") as upon the winding up or dissolution of the Society remains after the satisfaction of its debts and liabilities be transferred to The Institute of Chartered Accountants in England and Wales, and that the joint liquidators be and they are hereby authorised to execute and do all such documents, acts and things as may be necessary or desirable to carry this provision into effect.

(*d*) The joint liquidators be and they are hereby authorised to concur with The Institute of Chartered Accountants in England and Wales and any other necessary parties in the execution and delivery of an assignation in such form and by such parties as the Councils of the said Institute, The Institute of Chartered Accountants of Scotland and the Society may agree, vesting in The Institute of Chartered Accountants of Scotland all such rights as the Society and The Institute of Chartered Accountants in England and Wales may be able thereby to transfer in the name "Scottish Institute of Accountants" and in the designation "Fellow of the Scottish Institute of Accountants" and in the designatory letters "F.S.I.A."

There is the special resolution, ladies and gentlemen, that I have proposed and I would ask the Vice-President if he would be good enough to second it.

Mr. E. Baldry, F.S.A.A. (Vice-President): Ladies and gentlemen, I second the proposition.

Sir Richard Yeabsley: The meeting is now open for discussion, but inasmuch as some members are present in rooms other than this would they be good enough, if they intend to speak now or hereafter while this meeting is in progress, to come to the microphones in this room.

Mr. B. V. Piggott, A.S.A.A. (Ipswich): Mr. Chairman, ladies and gentlemen, my name is Piggott: I am an accountant in the public service from Ipswich. The special resolution which we have before us this afternoon proposes to place in liquidation the Society of Incorporated Accountants for the purpose of implementing the schemes of integration with the Institutes of Chartered Accountants in England and Wales, Scotland, Ireland. At the previous extraordinary general meeting, which was held on June 19 to consider the integration schemes, I explained my objections to certain principles of the schemes which affect unfairly 2,000 public service and oversea members of the Society. I do not propose to repeat these arguments today, as you are no doubt well aware of them. It is sufficient to state that we object strongly to the proposal to create an artificial distinction between members, so that one out of every five of the Society's members appears to be regarded as in some way unworthy of full membership of the Chartered Institute. This minority is being forced to accept an apparently inferior and dying qualification.

While we are aware that the integration schemes have been approved by the required three-fourths majority, I and many of my colleagues cannot support the proposal to wind up the Society under these terms. Further, we are not content merely to abstain from voting, but we must express clearly our sincere conviction that this liquidation should not take place. We are not satisfied with the terms offered. We must place on record that we do not approve of the resolution before the meeting by voting against it. Nevertheless, it is probable that the proposers of the special resolution will obtain the three-fourths majority which they require and I should like for a moment to look ahead to the position after integration is likely to have taken place. The majority of my colleagues will, I believe, join the Chartered Institute. Those that join will no doubt take part in the activities of the Institute and co-operate with the members in practice to work for the advancement of the accountancy profession. We consider that a mistake has been made by insisting on the division of members of the Society into two unequal classes, and it is hoped that in the not too distant future we shall find a change of heart on the part of the Council of the Institute, so that all are restored to their previous parity of membership.

We must, however, come back to the special resolution which is before the meeting and on which a decision is required today. I am asking all members in the minority class to join with me in voting against this resolution to place on permanent record our disapproval of liquidation on the basis proposed. (*Applause.*)

Sir Richard Yeabsley: Thank you. Would any other member care to speak? (*After a pause.*) There appears to be no one else who would care to speak. I will now therefore formally put the resolution.

The result of the voting was as follows:

For the resolution ..	225
Against the resolution	42

Sir Richard Yeabsley: I declare the resolution passed as a special resolution by the requisite majority. (*Applause.*)

Past Achievements

The passing of the resolution placing the Society in liquidation brings to an end for all practical purposes the life of a body born seventy-two years ago. Judged by human standards it had reached a ripe old age, but judged by some other professions it was but a youngster. However, let us reflect on what it achieved, and pay tribute to those who founded it and fostered it, and those who served it. Counting those who have passed on, there have probably been some 14,000 members of the Society, many of whom might not otherwise have joined the profession of which we are so proud, and in which I think we may claim, in all humility, to have played no small part in preserving its high ideals of integrity, fairness, and service.

We, too, have played our part in the development of the profession, and in widening its sphere of influence and its contribution in commerce. With this increase in the scope of our work has come greater responsibility, both individually and collectively. It has been through the courage and wisdom of our leaders that we have recognised our duties and discharged them so well, and we, the present generation, have by their example and precept achieved such a high standard in the profession that integration was the natural outcome.

Not unnaturally, we are proud of our achievements, but it is with no sense of magniloquent egotism nor the humility of Uriah Heep that we face the future. We are conscious of the great traditions and high standing of the Institutes we are joining, and the justifiable pride therein of their members, and the members of the Society will, I have no doubt, play their part in guarding and enhancing these treasures.

Thus, we look to the future with quiet confidence—that by learning, experience, and wisdom, coupled with right conduct, we can play our part in the service to the community to which we belong, a service which it is our bounden duty to give.

However, before closing this chapter in the history and development of the profession, let us remember those who over the years have contributed so much to the Society. There are the past Presidents, some of whom are still with us and in the fullest sense adorn our Council. (*Hear, hear.*) Then there are the Council members, who have in that way, and by substantial work on various standing and *ad hoc* committees, given much of their valuable time and experience; then the officers of the Branches and District Societies; and lastly, the secretariat and staff, who by their zeal, kindliness and devotion to duty have served us so well.

It would not be difficult to mention many by name and recount their individual contributions, but on an occasion such as this I am sure they would not wish it. But there are two names that will ever be associated with the Society, and to them I should refer in these valedictory remarks. Sir James Martin was one of the original members of the Society, and upon its incorporation in 1885 was made a member of the Council. In the same year he was elected the Society's first Secretary, a post which he held for thirty-three years, until his resignation in 1919. He was President of the Society in 1922/23, and again in 1935, the occasion of our fiftieth anniversary. He was succeeded as Secretary by Mr. Alec A. Garrett, who held that office for thirty years. Thus, over a period of sixty-three years, the Society had only two Secretaries, during which period its strength had risen to 8,000 members. Mr. Garrett's great work, particularly in connection with the Branches and District Societies, will long be remembered. This kindly soul has won our

hearts, and to him, his noble predecessor, and his worthy successor, who has worked indefatigably in regard to integration, all members will, I am quite sure, wish to express their deep appreciation for all that they have done. (*Applause.*)

Vote of Thanks

Mr. E. Cassleton Elliott, C.B.E., F.S.A.A.: Ladies and gentlemen, this is a momentous occasion. I have never seen this hall filled to capacity before. This is a tribute to our President and our Chairman. I would like just to tell you that I saw him before this meeting, when he presided at our Council meeting this morning. He has not left the building, because he is rather infectious. You may wonder what that means. I think I can tell you in a few words. He is suffering, to a slight extent—at least, I hope only slightly—from Asian influenza. He intended, despite the objections of his wife, to take charge of this meeting, and I think he has done so admirably. We are, therefore, very much indebted to him for coming here today.

I do not want to make a valedictory address so far as he is concerned, but as one of those senior past Presidents who has adorned this platform—thank you, sir—I know that we are very much indebted to him for the past eighteen months' work which he has done so keenly, so energetically, and so cleverly. He has had quite a lot of opposition to contend with, but he is a man who likes opposition when he knows his own mind, as he did on this occasion—that integration should go through.

Sir Richard Yeabsley, we are therefore very much indebted to you. We hope that you will carry out your wife's orders when you return home, go to bed and take those aspirins which are so necessary, and renew your strength quickly. We are very grateful to you. I ask you all to give him a vote of thanks by acclamation.

(*The vote of thanks was carried by acclamation.*)

Sir Richard Yeabsley: Mr. Cassleton Elliott, ladies and gentlemen, thank you very much indeed. As I said to my colleagues this morning, I joined the Society, as you all well know, a long time ago, in 1923. It was my first love: it is my love. What I have done has been a labour of love. And now, if I may, as your chief servant, I will say my *Nunc Dimittis*: "Now lettest thou thy servant depart in peace." Thank you. (*Applause.*)

I declare the meeting closed, and thank you very much for your attendance.

Eligibility of Society Students for Examinations

The Council of the Institute of Chartered Accountants in England and Wales has issued the following statement.

1. Clause 16 of the scheme for the integration of The Society of Incorporated Accountants with The Institute of Chartered Accountants in England and Wales dated December 5, 1956, provides:

Examinations of the Society

16. (*a*) As from the effective date or such later date (if any) as the Councils of the Institute and of the Society may agree, the Society shall cease to hold any further examinations; but the following examinations shall continue to be held as examinations of the Society in accordance with sub-clause (*b*) of this clause for the period below set forth (or for such longer period or periods as the Council of the Institute may think fit) provided that, in the case of the Special Final examination held in the Union of South Africa and in Southern Rhodesia, such examination shall only be held if and so long as the Council of the Institute considers it necessary and practicable to do so:

Intermediate examination held in England and Wales	until December 1, 1959
Intermediate examination held in Scotland ..	
Intermediate examination held in Ireland ..	
Final examination held in England and Wales ..	until December 1, 1961
Final examination held in Scotland	
Final examination held in Ireland	
Special Final examination held in the Union of South Africa and in Southern Rhodesia ..	until December 1, 1967

(*b*) Such examinations shall be held by the Institute (which shall be solely responsible for all matters relating thereto) in consultation, where appropriate, with the Scottish or Irish Institutes, as nearly as may be in accordance with the relevant provisions of the constitution of the Society as in force at the date of publication of this scheme, with such modifications (if any) as the Council of the Intsitute may consider necessary or desirable. But no person other than a person who is or has been either an articled clerk articled to a member of the Society or a bye-law candidate of the Society shall be eligible to sit for any such examination.

(*c*) If an articled clerk or bye-law candidate of the Society has not passed an Intermediate examination of the Society held prior to the date of publication of this scheme (or if he has not been duly exempted therefrom prior to that date) he shall only become eligible for admission to membership of the Institute if he passes the Final examination of the Institute.

2. In this statement, unless inconsistent with the subject or context, the terms "candidate," "articled clerk" and "bye-law candidate" include those who, at the effective date, had completed their articles with a member of the Society or had completed their qualifying service in accordance with the special provisions of the bye-laws of the Society.

3. Bye-law 120 of the Institute provides that "the Council may issue from time to time such regulations as it may consider necessary for the purpose of carrying into effect the scheme of integration referred to in clause 34 of the supplemental Charter."

4. Regulations relating to examinations to be held from January 1, 1958, have been made by the Council and are embodied in this statement which is applicable to those articled clerks and bye-law candidates of The Society of Incorporated Accountants who may make application under the scheme.

(I) Choice of Examinations Available

(*a*) An articled clerk or bye-law candidate who has NOT passed the Intermediate examination of the Society held prior to December 20, 1956, the date of publication of the scheme, or who has not been duly exempted from that examination before that date, may elect to sit for the Intermediate examination of the Institute or of

the Society; he must sit for the Final examination of the Institute.

(*b*) An articled clerk or bye-law candidate who has passed the Intermediate examination of the Society held prior to December 20, 1956, may elect to sit for the Final examination of the Institute *or* of the Society.

(*c*) An articled clerk or bye-law candidate who has been duly exempted from the Intermediate examination of the Society before December 20, 1956, may elect to sit for the Final examination of the Institute *or* of the Society.

(*d*) An articled clerk or bye-law candidate who has been duly exempted or who shall be duly exempted from the Intermediate examination of the Society on or after December 20, 1956, must sit for the Final examination of the Institute.

PROVIDED THAT

in all cases in (*a*) to (*c*) above (but subject to paragraph (V) below) where a candidate elects to present himself for an Intermediate examination of the Society he shall not subsequently be permitted to present himself for an Intermediate examination of the Institute (or vice versa); and that where a candidate elects to present himself for a Final examination of the Society he shall not subsequently be permitted to present himself for a Final examination of the Institute (or vice versa).

(II) Time at which Examinations may be taken

Any candidate presenting himself for an examination of the Institute, whether he elects to do so in accordance with the choice offered above or for any other reason, must comply with the rules of eligibility stated below under "Institute examinations."

Any candidate who presents himself for an examination of the Society must comply with the rules of eligibility stated below under "Society examinations."

(*a*) INSTITUTE EXAMINATIONS

According to the Royal Charters and bye-laws of the Institute, that is to say:

Intermediate (see paragraphs (VII) and (VIII) below:

those serving for three years: on completion of one year of service;

those serving for more than three years: on completion of two years of service.

Final (see paragraph (IX) below):

those serving for three years: one year after passing the Intermediate examination but in any case not earlier than within the last three months of service;

those serving for more than three years: two years after passing the Intermediate examination but in any case not earlier than within the last three months of service.

(Intending candidates should be acquainted with the detailed regulations set out in the booklet *General Information and Syllabus of Examinations*, which can be obtained on application from the Institute.)

(*b*) SOCIETY EXAMINATIONS

According to the regulations of the Society, that is to say:

Intermediate:

three-year articles: on completion of one year of service;

five-year articles: on completion of two years of service;

under the bye-laws: on completion of three years of service (graduates on completion of two years of service).

Final:

three-year articles:

Part I: during the last six months of service;

Part II: on completion of service;

Parts I and II together: on completion of service;

five-year articles:

Part I: on completion of three and a half years of service;

Part II: during the last year of service;

Parts I and II together: during the last year of service;

under the bye-laws:

Part I: on completion of four and a half years of service (graduates: on completion of three years of service);

Part II: on completion of six years of service (graduates: on completion of four years of service);

Parts I and II together: on completion of six years of service (graduates: on completion of four years of service).

(III) Society Students also Articled to Members of the Institute at the Effective Date

An articled clerk or bye-law candidate of the Society who at the effective date of the scheme had completed a term of service as an articled clerk of the Institute or who was serving as such at that date may, subject to the provisions of (I) and (II) above, elect to take the examination(s) appropriate to his status as an articled clerk or bye-law candidate of the Society, or, subject to the provisions of (II) above, the examination(s) appropriate to a clerk articled to a member of the Institute.

(IV) Incorporated Accountants Articled to Members of the Institute

An Incorporated Accountant who is eligible under the scheme of integration to apply for admission as a member of the Institute and who at the effective date was serving under articles with a member of the Institute, may if he wishes defer his application for admission to membership in order to complete his service under articles and pass the Final examination. Any Incorporated Accountant who elects to defer his application for admission in this way will be permitted to present himself for the Final examination of the Institute under the normal rules of eligibility (see paragraph (IX) below).

Any person admitted to membership of the Institute will not be permitted to present himself for any examination of the Institute.

(V) Position after Society Examinations have Ceased

When the examinations of the Society have ceased (see paragraph I above) a candidate will be required to sit for the appropriate Institute examination. A candidate who has been successful in only one part of the Final examination of the Society will be required to sit for the whole of the Institute's Final examination.

(VI) Bye-Law 27 of the Society—Passing Out of Eligibility

The Society's regulations under bye-law 27 include the requirement that articled clerks and bye-law candidates must complete the Society's examinations within a period of five years following the completion of their articles or approved service as the case may be.

This requirement will no longer apply.

(VII) Intermediate Examination of the Institute to be Taken before Completion of Service

An articled clerk is required under bye-law 81 to present himself for the Intermediate examination of the Institute during the term of his service. If an articled clerk does not present himself for that examination during his term of service he will be required to enter into a further period of service so that he is

serving when he first presents himself. If, on the other hand, he presents himself and is not successful at that examination during the period of his service, he may normally re-present himself for that examination on any later occasion and is not obliged to extend his service beyond the full period required.

(VIII) Permission to Sit for the Intermediate Examination at a Date Earlier than Normally Eligible

Under bye-law 81 the Council may in its discretion allow a candidate for an Intermediate examination of the Institute to present himself at a date earlier than that at which he is normally eligible. This discretion has been exercised only in the most exceptional circumstances and the number of applications granted is negligible.

(IX) Permission to Sit for the Final Examination at a Date Earlier than Normally Eligible

Under bye-law 86 (*a*) the Council may in its discretion allow a candidate to present himself for the Final examination of the Institute at a date earlier than that at which he is normally eligible. The bye-law, however, explicitly states that the Council can exercise this discretion only where the term of service has expired.

Every applicant under bye-law 86 (*a*) is required to state those special circumstances which in his opinion justify the exercise of the Council's discretion. Each application is considered on its merits. The Council has stated that it will normally accede to an application where the Final examination of the Institute for which permission to sit is requested is to be held at least one year after the passing of the Intermediate examination and at least one year after the completion of the term of service.

(X) Articled Clerks and Bye-Law Candidates Serving outside England and Wales

The Council will continue the special regulations of the Society applicable to clerks serving their articles outside England and Wales and to bye-law candidates completing their qualifying service outside England and Wales who are required to sit for the examinations of the Institute or of the Society in the United Kingdom (except that in no circumstances will an articled clerk be permitted to present himself for the Final examination of the Institute earlier than within the last three months of his service under articles).

The Society in the South-West

THE INCORPORATED ACCOUNTANTS' District Society of Devon and Cornwall held a dinner on November 1 at the Duke of Cornwall Hotel, Plymouth, under the chairmanship of its President, Mr. J. A. Isaac, A.S.A.A. The guests included the Lord Mayor of Plymouth (Alderman Leslie F. Paul); Mr. L. Barford, M.A. (H.M. Senior Principal Inspector of Taxes); Mr. C. V. Best, F.S.A.A. (member of the Council of the Society of Incorporated Accountants); Mr. S. McClelland, M.A. (H.M. Senior Inspector of Taxes); Mr. J. Stanley Yeo (President of the Incorporated Law Society of Plymouth); and other representatives of the professions and the Inland Revenue.

Mr. G. Dudman, A.S.A.A. (Vice-President of the District Society) proposed the toast of the City of Plymouth. He said many new buildings were rising, and, in particular, the Guildhall was being restored to its former glory. It would be a monument to Alderman Paul, and everyone hoped that it would be completed during his period of office as Lord Mayor. Plymouth was without doubt the finest and most modern city in the country.

The Lord Mayor of Plymouth (Alderman Leslie F. Paul), in reply, said he had been criticised for his efforts in insisting on the restoration of the Guildhall, but he regarded it as worthwhile regardless of the cost.

In his capacity as a Commissioner of Taxes, he had always realised the amount of work brought to the accountancy profession because of the growth of the city, and he was sure it would continue to expand.

Mr. L. Barford, M.A. (H.M. Senior Principal Inspector of Taxes) proposed the toast of the Society of Incorporated Accountants. He observed that the resolution passed that afternoon had made his task difficult, but he would wish the Society a life of happiness until it ceased to exist. The subject of his toast must therefore of necessity be the integration of the Society with the Institute.

The Society was joining a new partnership, and was taking into it the standards and values which had been built up over three or four generations and the respect it had won from the whole community. But it was right to remember those who had built up the Society to what it was today. He in particular thought of the late Sammy Roberts, the first partner of Roberts and Pascho. He was a very great gentleman, and had taught him the virtues of integrity and courtliness in conduct between Inspectors and accountants.

Mr. C. V. Best, F.S.A.A. (Member of the Council of the Society of Incorporated Accountants) in reply, announced that the liquidation resolution had been passed, and the effective date for the schemes of integration was November 2. The Devon and Cornwall District Society would be joined with that of the English Institute. He felt that the right step had been taken for the benefit of the profession as a whole.

Since it was formed in 1885, the Society had been in the lead in dealing with accountancy problems, and many of its suggestions were now accepted practice in the profession.

Mr. Best praised the officers of the District Society, and in particular Mr. Pascho, who had been secretary since its inception in 1934. By men of such calibre, the highest traditions of the Society would be taken into the Institute.

Mr. S. McClelland, M.A. (H.M. Senior Inspector of Taxes) proposed the toast of the Incorporated Accountants' District Society of Devon and Cornwall. He recalled the names of men not unknown to him since the District Society was formed in 1934. One of them was the late Mr. W. J. Ching, its founder and first President. Later Presidents too had helped to maintain the high standards of tradition and integrity of which the Society was so proud.

Mr. J. A. Isaac, President of the District Society, in response, suggested that the joint District Societies of the future would have an ever increasing part to play. Some members might ask whether the new national body—something like 30,000 strong—could be in a position to realise the difficulties of the practising accountant in small marketing towns, or of those in industry. It was there that the district society had an important function.

He thanked Mr. McClelland for his remarks about past presidents. Thanks were due also to the committee members, and particularly to their only secretary, Mr. Pascho.

Mr. W. R. Frost, a past President of the District Society, proposing the toast of the guests, coupled with it the name of Mr. J. Stanbury Yeo, the President of the Incorporated Law Society of Plymouth. Mr. Yeo responded.

Events of the Month

December 2.—*Luton:* "Investigations," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Students' meeting. Conservative Club, at 5.30 p.m.

December 3.—*Bradford:* "Costing Principles," by Mr. G. Tattersall Walker, A.C.A. Victoria Hotel, at 6.30 p.m.

Dublin: "Share Valuations and Take-over Bids," by Mr. C. R. Curtis, M.SC.(ECON.), PH.D., F.C.I.S. Students' meeting. Mills Hall, Merrion Square, at 6.15 p.m.

December 4.—*Belfast:* Mock annual general meeting, conducted by Mr. C. R. Curtis, M.SC.(ECON.), PH.D., F.C.I.S. Students' meeting. The Library, at 7 p.m.

London: Taxation Group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

December 5.—*Gloucester:* "Double Taxation," by Mr. N. S. Price, H.M. Inspector of Taxes. Technical College, Brunswick Road, at 6.30 p.m.

December 6.—*Birmingham:* "The Structure of Final Accounts," by Professor D. Cousins, B.COM., A.C.A. Law Library, Temple Street, at 6.15 p.m.

Leicester: "Partnership Accounts—Some Examination Problems," by Mr. H. A. Astbury, F.C.A. Students' meeting. Bell Hotel, Humberstone Gate, at 6 p.m.

Manchester: "Company Law," by Mr. J. Stewart Oakes, Barrister-at-Law. Students' meeting. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

Norwich: "Taxation Problems of Company Reconstruction," by Mr. P. Shelbourne, LL.B. Royal Hotel, at 7 p.m.

Sheffield: "Company Amalgamation and Reorganisation," by Mr. P. Cardwell, F.S.A.A. Students' meeting. Grand Hotel, at 5.30 p.m.

Waterford: "The Role of the Accountant in Financial Investigation" and "Share Valuations and Take-over Bids," by Mr. C. R. Curtis, M.SC.(ECON.), PH.D., F.C.I.S. Students' meeting. Offices of Messrs. W. A. Deevy & Co., at 4 p.m.

Worcester: "The Auditor and Stock and Work in Progress," by Mr. A. C. Simmonds, F.S.A.A. Crown Hotel, Broad Street, at 6.30 p.m.

December 9.—*Coventry:* "Coventry Cathedral"—film shown by Mr. Barnard Reyner, A.R.I.B.A. Open meeting. "Golden Cross," Bayley Lane, at 6.15 p.m.

December 11.—*Cambridge:* "Police and Public," by Mr. B. N. Bebbington, C.B.E., Chief Constable, Cambridge, Shire Hall, at 7.15 p.m.

London: Management Group meeting. "What is Management Accounting?" Discussion introduced by Mr. H. W. Broad, A.S.A.A. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

Swansea: "The making of the Budget," by Mr. J. J. Clarke, M.A., F.S.S. Students' meeting. Y.M.C.A., at 7 p.m.

December 12.—*Colchester:* "Income Tax," by Mr. K. S. Carmichael, A.C.A. Joscelin Café, High Street, at 7 p.m.

December 13.—*Birmingham:* "Schedule D, Cases I and II. Some Problems on Deductions and Receipts," by Mr. W. H. A. Sutton, H.M. Inspector of Taxes. Law Library, Temple Street, at 6.15 p.m.

Bristol: "The Auditor and Mechanised Accounts," by Mr. A. C. Simmonds, F.S.A.A. Royal Hotel, College Green, at 6.30 p.m.

Hull: "Standard Costing," by Mr. G. Tattersall-Walker, A.C.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

Leicester: "Executorship—I. Estate Duty—Aggregation, Exemptions, Abatements and Allowances," by Mr. D. A. Lewis. Students' meeting. Bell Hotel, Humberstone Gate, at 6 p.m.

Manchester: "Profits Tax," by Mr. C. C. Hunt. Students' meeting. Incorporated Accountants' Hall, 90 Deansgate, at 6 p.m.

Stockton: "Contract and Agency," by Mr. R. D. Penfold, LL.B., Barrister-at-Law. Joint meeting. The Metropole Hotel, at 6 p.m.

December 14.—*Waterford:* Students' annual dinner and dance. Grand Hotel, Tramore, at 7 p.m.

December 16.—*Leicester:* "The Financing of Small and Medium Businesses," by Mr. W. E. English, B.A., A.I.B. Cromwell Room, Grand Hotel, at 6 p.m.

December 19.—*Carlisle:* Dinner dance. Silver Grill.

December 20.—*Belfast:* Students' annual ball. Belfast Castle.

January 3.—*Leicester:* Details to be announced later.

Seaton Carew, Co. Durham: Dance. Staincliffe Hotel.

January 6.—*Leicester:* "The Liability of Controlled Companies to Surtax," by Mr. G. S. A. Wheatcroft, M.A. Chamber of Commerce Board Room, Granby Street, at 6 p.m.

January 7.—*Sheffield:* "The use of Settlements to Avoid Taxation," by Mr. G. S. A. Wheatcroft, M.A. Grand Hotel, at 6.15 p.m.

Swansea: "Finance for Industry," by Mr. A. D. Coventry, C.A., F.C.W.A., A.C.I.S. Joint lecture. Gas Showrooms, The Kingsway, at 6.45 p.m.

District Societies

London

THE LAST LUNCHEON of the Incorporated Accountants' London and District Society—now to be integrated with the London and District Society of Chartered Accountants—was held on November 20. There were about 150 members present. The Chairman of the District Society, Mr. A. C. Simmonds, F.S.A.A., presided. The guest speaker was Sir Richard Yeabsley, C.B.E., F.C.A., President of the Society of Incorporated Accountants.

South Wales and Monmouthshire

MR. T. H. TRUMP, F.S.A.A., has been elected President.

Swansea and South-West Wales

MR. D. EMRYS DAVIES, F.S.A.A., has been elected President and Mr. G. E. Gibbs, F.S.A.A., J.P., Vice-President.

Personal Notes

Messrs. Midgley, Gerrard & Co., Incorporated Accountants, Bolton, have admitted to partnership Mr. Roy K. Gerrard, A.C.A., A.S.A.A.

Mr. S. W. Willson, A.S.A.A., has been elected a local director attached to the Birmingham branch of the State Assurance Co. Ltd.

Messrs. James L. and F. S. Oliver, Incorporated Accountants, Newcastle upon Tyne, announce that Mr. A. K. Robson, A.S.A.A., has been admitted into partnership. The name of the firm is unchanged.

Mr. H. Lomax, F.S.A.A., and Mr. J. M. E. King, A.C.A., A.S.A.A., practising as Lomax & King, Incorporated Accountants, and Mr. B. M. Rothmer, B.COMM., A.C.A., announce the amalgamation of their practices. The new firm is Lomax, King & Rothmer, with offices at 83 Bridge Street, Manchester 3, and at Southport, Northenden and Prestwich.

Messrs. Clements, Hakim & Co., Incorporated Accountants, London, E.C.4, and Messrs. A. S. Darr & Co., Incorporated Accountants, London, E.18, have amalgamated their practices. The combined practice is being carried on at both the existing offices under the firm name of Clements, Hakim, Darr & Co.

Messrs. J. A. Kinnear & Co., Dublin, have admitted to partnership Mr. W. J. McMahon, B COMM., A.S.A.A., and Mr. R. T. Poole, A.S.A.A.

Mr. F. Treasure, Incorporated Accountant, has ceased to practise in Preston and has entered into partnership with Mr. F. Ashworth, Chartered Accountant. They are practising under the style of Ashworth & Treasure at 10 Park Street, Lytham, Lytham St. Annes, Lancashire.

Messrs. Alfred E. Usher & Co., Sunderland, have taken into partnership Mr. John E. Wanless, A.S.A.A.

Mr. George Dawson, A.S.A.A., has been appointed secretary to Brown, Muff & Co. Ltd., Bradford. He was formerly assistant secretary.

Removals

Mr. J. W. Cooknell, Incorporated Accountant, has removed his office to 32 Priory Road, Kenilworth.

Mr. Harry Harris, Incorporated Accountant, has transferred his practice to 5 Lydford Road, London, N.W.2.

Messrs. Forster, Scollick & Co., Incorporated Accountants, announce that their address is now 6 Jesmond Road, Newcastle upon Tyne, 2.

Classified Advertisements

Two shillings and sixpence per line (average seven words). Minimum ten shillings. Box numbers one shilling extra. Replies to Box Number advertisements should be addressed Box No. . . . c/o ACCOUNTANCY, *Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.*

***THE SOCIETY'S APPOINTMENTS REGISTER** Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment. London, W.C.2. Tel. Temple Bar* 8822.

APPOINTMENTS VACANT

EASTERN NIGERIA
Revenue Inspectors, Internal Revenue

APPOINTMENT: Contract for two tours. Salary scale £960—£1,674. Gratuity of either £25 or £37 10s. a quarter dependent on salary. Free passages. Generous leave. Quarters provided.

DUTIES: Various connected with a modern Income Tax system (including P.A.Y.E.) recently introduced.

QUALIFICATIONS: Not less than ten years accounting experience. This period will be waived if candidate has
(a) a knowledge of modern income tax law and practice or
(b) a recognised accountancy qualification or
(c) has passed the final examination of either the Law Society or Bar Council.

Particulars and application form from Director of Recruitment, COLONIAL OFFICE, S.W.1, quoting BCD 92/411/02.

ACCOUNTANCY Staff from Articled to top salaried ACCOUNTING & TAXATION APPTS. NO FEES TO STAFF. CONDUIT ST. BUREAU (GRO: 7080) 4 Conduit St., Oxford Circus, W.1. Open daily 8.30 to 7.30: Sats. 9-1.

ACCOUNTANT—COMPANY SECRETARY
A Midlands Electrical Wholesaler has vacancy for an Accountant/Secretary at their Birmingham Head Office. Basic commencing salary £1,000 per annum.

The post offers an exceptional opportunity for a young Chartered or Incorporated Accountant with some supervisory and/or management accounting experience.

Applications in writing to: WJT/1219, URWICK, ORR & PARTNERS LTD., 150 The Parade, Leamington Spa.

A LARGE London advertising agency is looking for a qualified accountant, aged about 30-35, who has had at least four or five years' experience in the commercial world. He will be responsible for the Accounts Department, costing systems, and all related financial matters. The position offers considerable scope to a man with a lively mind who is able to initiate and develop efficient methods for dealing with a mass of detail and can bring an understanding approach to the problems of a many-sided business. Write with full details of experience and qualifications to Box No. 580, c/o ACCOUNTANCY.

AN OPENING has arisen for an intelligent man age 21-30 in a large engineering firm on the N.E. Coast. Consideration will be given to graduates and non-graduates. Some experience in commerce or industry essential, preferably in Organisation and Methods. Experience in dealing with different people desirable. Apply Box No. 578, c/o ACCOUNTANCY.

APPLICANTS with the necessary experience requiring BETTER positions as Senior, Semi-senior and Junior AUDIT CLERKS should contact us. We have a good selection. Other Professional and Commercial posts available. HOLMES BUREAU, 10 Queen Street, E.C.4. City 1978.

AUDIT CLERKS. Many vacancies waiting for Senior, Semi-senior or Junior. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

CHARTERED OR INCORPORATED Accountant is required for a new appointment in the Organisation and Methods Department at the Head Office of a leading engineering company in London. First-class commercial experience, especially in management accounting, is essential. Applications giving full details of qualifications, experience, age, etc., should be addressed to GEORGE A. TOUCHE & Co., M.S. Dept., Suffolk House, Laurence Pountney Hill, E.C.4.

COST ACCOUNTANT required by NIGERIAN FEDERAL GOVERNMENT for Research Institute of Dept. of Commerce and Industries. Salary scale (including Inducement Addition) £1,728 rising to £1,962 a year. Gratuity at rate of £150 a year. Outfit Allowance £60. Appointment on contract for one tour of 12-24 months in first instance. Free passages for officer and wife. Assistance towards children's passages and grant up to £150 annually towards maintenance in U.K. Liberal leave on full salary. Candidates, not over age 35, must possess recognised accountancy qualification, preferably A.C.W.A., and be familiar with internal audit procedure. Industrial experience essential. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/43853/AD.

EAST AFRICA

(a) A Qualified Accountant aged under 35 is required as internal auditor in a large commercial organisation (the member of an international group) trading in East Africa. The position, which is a newly created one requiring the qualities of initiative and tact, would be based on Nairobi where the applicant would be required to live but as a considerable amount of travelling will be involved from time to time the post is more suited to a single man than to a man with a family. The commencing salary will be according to age and previous experience and will be discussed at interview. There is a pension fund and a medical expenses scheme, partially furnished accommodation or allowance in lieu thereof, and free passages. Optional tours of two or four years' duration with U.K. leave on full pay.

(b) An Unqualified Accountant is also required immediately as a branch accountant for the same organisation aged 25-30 with sound experience of keeping a complete set of books. The commencing salary for this post will be £950 to £1,050 per annum according to age and previous experience. Other condition of employment are as in (a) above.

Applicants for both of the above positions should write giving full personal details to Box No. 579, c/o ACCOUNTANCY.

LONDON CHARTERED ACCOUNTANTS require qualified Accountant, age about 40. Salary from £900 per annum according to experience. Five-day week. Pension scheme available. Full details to Box No. 569, c/o ACCOUNTANCY.

NEWLY QUALIFIED ACCOUNTANTS required for professional firm in SOUTHERN RHODESIA. Salary dependent on qualifications and experience but not less than four figures. Three-year contract, passage paid. Write quoting A.51/21 to O.T.S., 5 Welldon Crescent, Harrow, Middlesex.

SOUTH AFRICA. Leading International Firm of Accountants has vacancies in its Johannesburg Office for QUALIFIED ACCOUNTANTS, aged 24-35. Salaries from £1,200-£1,800 per annum dependent on age, experience and marital status. Passage paid. Excellent prospects. Applications with full particulars to Box No. 564, c/o ACCOUNTANCY.

VACANCIES available for qualified Accountants in South America, West Indies, Rhodesia, Kenya, Far East and the Continent. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

THE NIGERIAN PORTS AUTHORITY, a recently formed Public Corporation operating the ports of Lagos and Port Harcourt, has vacancies for SENIOR ACCOUNTANTS with several years' commercial experience in responsible positions. Candidates should be under 45 years of age and should be members of one of the recognised bodies of professional accountants. Basic Pay £1,650—£1,850 a year plus Overseas Pay £300 a year where applicable. Point of entry will be dependent on qualifications and experience. Furnished accommodation provided at low rental. Substantial non-contributory pension/provident fund benefits, free medical attention, car allowances, qualification pay where applicable. Tours normally 12/18 months followed by substantial leave with passages paid both ways, including family. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience, and quote M3B/44477/AD.

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